Vipul's™

BMS Series

STRATEGIC MARKETING MANAGEMENT

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UNIT - I

CHAPTER 1

Introduction to Strategic Marketing Management

Learning Objectives

(A) Marketing:

- Nature of Marketing
- Marketing as an Art
- Science and Business Discipline
- Marketing as a Value Creation Process

(B) Strategic Decisions:

- Nature of Strategy
- The Marketing Strategy Interface
- Difference between Marketing Planning and Strategic Planning

(C) Identifying the Market

- The 5 C Framework – Customer, Company, Collaborator, Competitor, Context

(D) The 7 Tactics of Marketing Mix:

- Product, Service, Brand, Price, Incentives, Communication and Distribution

(E) Business Models and Strategic Marketing Planning:

- Meaning
- Role of Business Models in Marketing Management
- Strategies for Developing a Business Models Model Generation
- Bottom up Business Model generation
- The G-STIC Framework for Marketing Planning
- Goal-Strategy-Tactics-Implementation-Control
- Objective Questions with Answers
- Question Bank For Self-Practice

(A) MARKETING

MEANING AND NATURE:

Marketing is an important socio-economic activity that is essential for satisfaction of human wants. It is a key function in management that facilitates expansion of business activities and raising social welfare. Marketing consists of activities that facilitate exchanges meant to satisfy consumer needs and wants. It is about identifying and meeting human and social needs.

DEFINITIONS:

(1) According to **American Marketing Association**, *"Marketing consists of the performance of business activities that direct the flow of goods and services from producers or suppliers to consumers or end-users."*

(2) In the words of **Philip Kotler**, *"Marketing is a societal process by which individuals and groups obtain what they need and want through creating, offering and freely exchanging products and services of value with others."*

(3) *Marketing is the process of discovering and translating consumer needs and wants into products and services, creating demand for these products and services and then in turn expanding this demand.*

– H. L. Hansen

Thus marketing may be defined as those as those business functions which are most directly and primarily concerned with three activities:

(1) The recognition of the demand,

(2) The stimulation of demand,

(3) The satisfaction of demand.

NATURE OF MARKETING:

Marketing is meeting needs profitability. In the words of Peter Drucker, "The aim of marketing is to know and understand the customer so well the product or service fits him and sells itself, The aim of marketing is to make selling superfluous". He further added "Marketing is so basic that it is not just enough to have a strong sales department and to entrust marketing to it. Marketing is not only much broader than selling; it is not a specialized activity at all. It encompasses the entire business. It is the whole business seen from the point of view of its final result, that is from the customer's point of view. Concern and responsibility for marketing must therefore permeate all areas of the enterprise."

In most organizations today, marketing is considered to be an activity just to support sales, advertising promotions to sell more of the company's products and services. Such companies view the goal of marketing as selling more things to more people for more money. However, the main problem with this view of marketing is that it does not describe marketing but a related business activity, that is sales. Selling more things to more people for more money is sales and not marketing. There is a vast difference between sales and marketing. Marketing is a business discipline and a specialized activity that is much broader than sales.

FEATURES / CHARACTERISTICS OF MARKETING:

Marketing is the process that brings about voluntary exchange transactions between a marketer and a customer. The features/ characteristics of marketing is as follows:

(1) **Human Activity:** The term marketing primarily is a human activity under which human needs are satisfied by human efforts. Thus marketing is a human action for human satisfaction.

(2) **Relates to Goods and Services:** Marketing basically relates to the exchange of goods and services for money. This results in trade transactions between the buyers and sellers.

(3) **Regular and Continuous:** Marketing is an activity in which goods and services are manufactured and distributed to consumers on a regular and continuous basis. There should be a regular and large-scale supply of goods and services for effective marketing.

(4) **Marketing Begins with Customer Needs:** Marketing begins with ascertaining the needs and wants of potential customer. It tries to anticipate needs and then determine what goods and services are to be developed. This also includes decisions about product features, quality, design and packaging, price, credit policies, intermediaries, advertising and sales policies, after-sales, customer service, warranty etc.

(5) **Applies to Profit and Non-Profit Organizations:** Marketing applies to both profit and non-profit organizations. Profit is the objective for most business firms. But non-profit organizations may seek more members or donations or acceptance of an idea. Consumer or clients may be individual consumers, business firms, non-profit organizations, government agencies or even foreign nations.

(6) **Builds a Relationship With Customer:** Marketing tries to identify and satisfy customer needs and wants. Marketing activities do not end with a single sale but rather it tries to develop a long term relationship with customers. It ensures that in future, when the customer has same need again, or some other need that the firm can meet, other sales will follow. The long lasting relationship is beneficial to both the firm as well as the customers.

(7) **Integrated Function:** Marketing is an integrated function and all the marketing decisions are linked with each other. One decision will automatically lead to another decision. For example, if a company has decided to launch a product for limited number of customers then its price will be high and that product will be available through exclusive distribution system and the promotion strategy will depend on the media preferred by the target market. So, if a company decides the first step then decisions regarding the remaining steps will follow.

(8) **Creation of Utilities:** Marketing creates four components of utilities viz. time, place, possession and form. The form utility refers to the product or service a company offers to their customers. The place utility refers to the availability of a product or service in a location i.e. easier for customers. By time utility, a company can ensure that products and services are available when customers need them. The possession utility gives customers ownership of a product or service and enables them to derive benefits in their own business.

(9) **Increases Standard of Living of People:** Marketing continuously identifies the needs and wants satisfying products or services. It aims to provide new varieties of quality goods and services to customers. People are likely to spend the additional income over and above the disposable income on new and better products/ services. Thus marketing makes it possible for people to have easy accessibility to products and helps in improving the standard of living of customers.

(10) **Socio-Economic Significance:** Marketing develops new ways of life in society and makes the society progressive and dynamic. Further, it promotes exports, ensures optimum

utilization of all resources and creates massive employmen opportunities.

MARKETING AS AN ART:

Art is that part of the knowledge which enables us to reach ou goals and tells us the manner in which we may attain ou objectives in the best possible manner. The more one practices a art, the more proficient he/ she becomes in it.

Marketing is an art because it is the creativity, innovation an imagination of the managers that have been put into practice t get the desired results.

MARKETING AS A SCIENCE:

Science may be defined as a systematic body of knowledg based on certain principles which are universally applicable. Th principles of science are based upon experiments, constan research, observation, collection of data and its interpretation. Th scientific laws establish the relationship between cause and effec and their results are definite and accurate.

Natural sciences tells what is going to happen under certai conditions. Marketing, like any other natural science, builds a body of valid laws and principles, e.g., the rise and fall in the customer income, directly results in the fall or rise in sales o products/ services of a business organization.

It can be said that marketing is a science but not a pure science as it is about understanding and influencing behaviours. This is similar to Newton's' third law-cause and effect. For every marketing action there is a reaction. E.g. Promotional offers lead to increase in sales.

Thus we can conclude that marketing is both as an art as well as science. It consists of certain principles and rules that are put to use in the best possible manner in order to get the best results. In

the words of **Philip Kotler,** *"Marketing is the science and art of exploring, creating, and delivering value to satisfy the needs of a target market at a profit"* (Kotler, 2001-2012). For marketing to be successful it needs to blend both science and art.

MARKETING AS A BUSINESS DISCIPLINE:

Marketing is a way of thinking and an approach to business that is based on the organization's attempt to meet its customers' needs in the best possible manner and to simultaneously create value for the organization and for the customers. Marketing is fundamentally about understanding customers because they are directly relevant to the most basic business objective i.e. profit.

Successful companies recognize the words of David Packard, Hewlett Packard's chief executive, when he said, "Marketing is too important to leave to the marketing department". What he meant was that marketing is a philosophy that places the customer-not the marketing department-at the centre of business. It is the responsibility of everyone within the company to focus on anticipating and satisfying the customers' needs and wants.

Marketing department frequently controls the most visible aspects of marketing, such as advertising and promotions. However, successful marketing relies upon cross-functional co-operation. Marketing is the process used to determine what products or services may be of interest to customers, and the resulting application of the marketing strategy across sales, communications and business development.

Marketing management is a business discipline which focuses on the practical application of marketing techniques and the management of a firm's marketing resources and activities.

MARKETING AS A VALUE CREATION PROCESS:

Marketing is a process of creating and delivering value. In fact, value-creation and value-delivery is the main task of marketing. The marketer delivers value to the customers basically through market offers and ensures that the offer fulfils the needs of the customers. He also ensures that the customer perceives the terms and conditions of the offer as more attractive, vis-a-vis other competing offers.

In the first place, the marketer creates the product that will meet the identified needs of the consumer. Second, he carries out functions such as transportation and storage, so that the product can conveniently reach the consumer. Third, he communicates the benefits of the offer to the consumer by carrying out various promotional activities such as personal selling, advertising and sales promotion. Lastly, he handles the price mechanism by arriving at a price that is acceptable to the consumer. These are the elements with which the marketer accomplishes his value delivering task.

Marketing is the process by which companies create value for the customers and build strong customer relationships in order to capture value from customers in return.

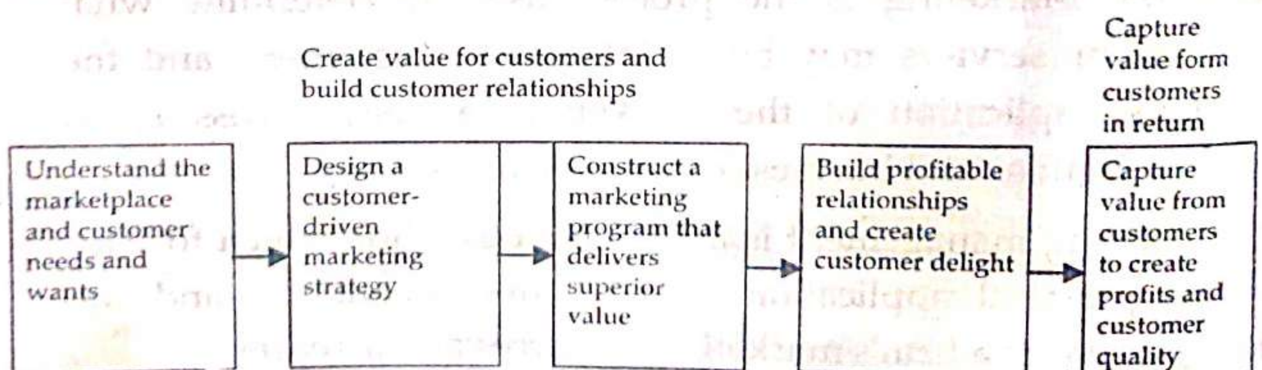

Fig. 1.1: Marketing as a Value Creation Process

(Source: Marketing Management, Philip Kotler)

THE MARKETING PROCESS COMPRISE OF:

(1) Understanding the market place and customer needs and wants.

(2) Design customer driven marketing strategies.

(3) Integrated marketing program that delivers superior value.

(4) Building profitable relationship and create customer delight.

(5) Capturing value from customers to create profits and customer equity.

Marketers must create value for products by providing education, creating a need, and reaching the target market. It is important to educate the internal employees and shareholders of a company to get their support, input, and participation in marketing new product/ services.

(B) STRATEGIC DECISIONS

A strategic decision involves the creation, change or retention of a strategy. Such decision is usually costly in terms of the resources and time required to reverse or change it. These decisions are concerned with the environment in which the firm operates, the entire resources and the people who form the company, as well as the interface between the two.

CHARACTERISTICS/FEATURES OF STRATEGIC DECISIONS:

- Strategic decisions are concerned with possessing new resources, organizing and reallocating them.
- Strategic decisions deal with harmonizing organizational resource capabilities with the threats and opportunities.

- Strategic decisions deal with the range of organizational activities having a larger time frame.
- Strategic decisions involve a change of major kind since an organization operates in ever-changing environment.
- Strategic decisions are complex in nature and uncertain thereby involving huge risk.
- Strategic decisions are taken at the top most level.
- Strategic decisions are different from administrative and operational decisions. Administrative decisions are routine decisions that facilitate strategic decisions, whereas operational decisions are technical decisions which help execution of strategic decisions.

NATURE OF STRATEGY:

Strategy is very commonly used today in business to describe what actions managers would take to achieve organization's goals and objectives. Strategy generally involves setting goals, determining actions to achieve the goals, and mobilizing resources to execute the actions. A strategy describes how the goals will be achieved with the resources available.

DEFINITIONS:

(1) *"Strategy is the determination of basic long term goals and objectives of an enterprise and the adoption of courses of action and allocation of resources necessary for carrying out these goals."*

(2) *"A strategy is a unified, comprehensive and integrated plan that relates the strategic advantages of the firm to the challenges of the environment. It is designed to ensure that the basic objectives of the enterprise are achieved through its proper execution by the organization."*

– Lawrence R. Jauch and William F. Glueck

Henry Mintzberg described five definitions of strategy in 1998:

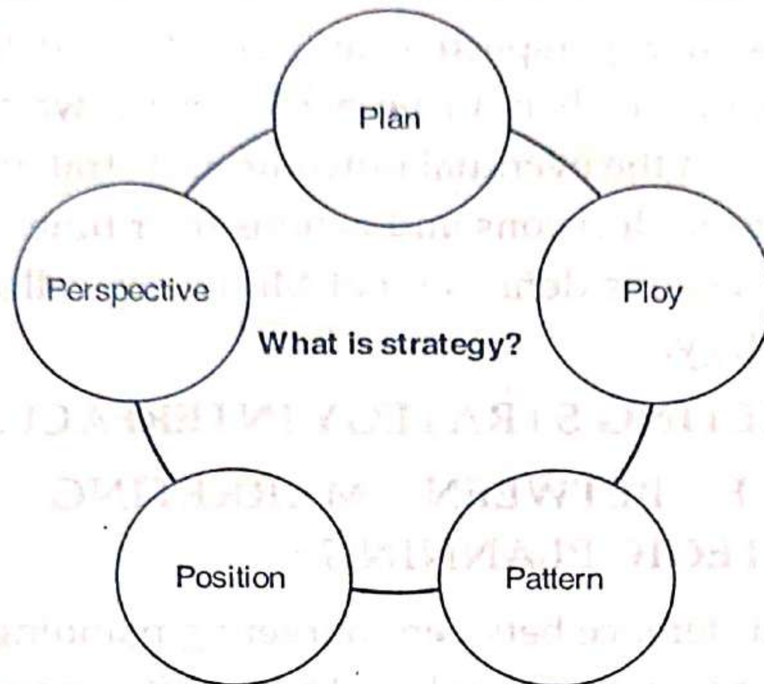

Fig. 1.2: Mintzberg's 5 Ps of Strategy

- **Strategy as plan:** A directed course of action to achieve an intended set of goals.
- **Strategy as pattern:** A consistent pattern of past behaviour, with a strategy realized over time rather than planned or intended. Where the realized pattern was different from the intent, he referred to the strategy as emergent;
- **Strategy as position:** Locating brands, products, or companies within the market, based on the conceptual framework of consumers or other stakeholders; a strategy determined primarily by factors outside the firm;
- **Strategy as ploy:** A specific manoeuvre intended to outwit a competitor; (strategy designed to provoke a competitors reaction);
- **Strategy as perspective:** Executing strategy based on a "theory of the business" or natural extension of the mind-set or ideological perspective of the organization.

Mintzberg argues that strategy emerges over time as intentions collide with and accommodate a changing reality. Thus, one might start with a perspective and conclude that it calls for a certain position, which is to be achieved by way of a carefully crafted plan, with the eventual outcome and strategy reflected in a pattern evident in decisions and actions over time. This pattern in decisions and actions defines what Mintzberg called "realized" or emergent strategy.

THE MARKETING STRATEGY INTERFACE:

DIFFERENCE BETWEEN MARKETING PLANNING AND STRATEGIC PLANNING :

There are difference between marketing planning and strategic planning according to Greenley. These differences indicate that strategic planning logically precedes marketing planning by providing a framework within which marketing plans might be formulated.

The difference can be seen as follows:

No.	Marketing Planning	Strategic Planning
(1)	Marketing Planning is concerned with day-to-day performance and results.	Strategic Planning is concerned with the overall, long term organizational direction. It is a broad process that can address the entire business, or a portion of the business such as marketing.
(2)	This represents only one stage in organizations development.	This provides the long term framework for the organization.
(3)	Here the functional and professional orientation tend to predominate.	Here the overall orientation needed to match the organization to its environment.

(4)	Goals are subdivided into specific targets	Goals and strategies are evaluated from an overall perspectives.
(5)	Relevance of goals and strategies is immediately evident	Relevance of goals and strategies is only evident in the long run.
(6)	This follows strategic planning.	This precedes marketing planning
(7)	Market planning includes decisions such as: changes that the company makes to expand the number of potential customers and how to productively engage with them.	Market planning includes decisions such as: long range (3 to 5 years) planning for the functional aspects like Accounting and Finance, IT, Operations, HR, etc.

(C) IDENTIFYING THE MARKET

Marketers need to identify a certain set of homogenous customers within a heterogeneous market and work towards satisfying their needs and wants. This set is identified as market segment. Another concept gaining prominence is target marketing, where companies identify the market segment on similar needs and wants, select one of the market segments and then focus on developing products and marketing program for them.

Earlier business operation was in the form of mass marketing, where marketers produced the products in large quantities and served to as many consumers as possible. However, now product offerings have undergone radical change due to advertising and communication reach. Therefore, companies look forward to marketing at segment, niches, local and individual level.

THE 5 C FRAMEWORK:

The market in which the comp[any offers its products is defined by five factors (also known as the five C's). The Five C's of marketing are the five most important areas. When marketing executives make decisions, they should consider the five C's namely, **Customers, Company, Collaborators, Competitors** and **Context.** The five C's act as a guideline while creating a marketing plan or devising a marketing strategy.

(1) Customers: Customers are the potential buyers and it is important to identify them and determine which of their needs are to be satisfied. Customers can be in B2B as well as C2C categories. The company must recognize the tangible and intangible benefits that the customer is seeking. In order to compete successfully in the marketplace, marketers need to know the motivation behind customers' purchases. Marketers must do research in the area of market size, market growth, market segments, purchasing frequency etc.

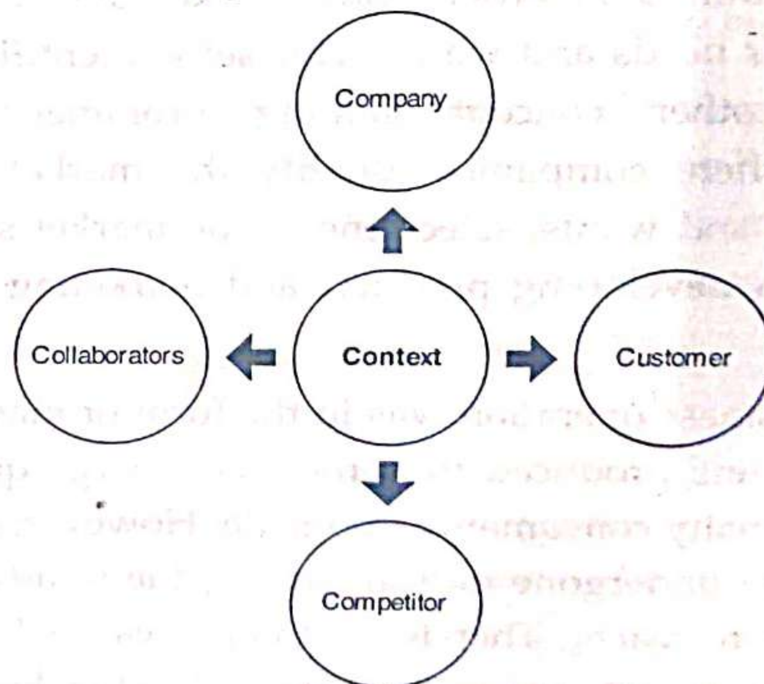

Fig. 1.3: 5 C Framework

(2) **Company:** Company is basically the organization that manages the offering. Marketers need to analyse the company's product line, its culture, objectives and image in the market. Company can be successful if and only if it uses core competencies, superior technology and experience to fulfil customers' needs.

(3) **Collaborators:** Collaborators are businesses or entities that can help the company achieve its goals and objectives. They work with the company to create value for target customers. Collaborators may include suppliers and distributors, salesforce, advertising agencies, market research companies etc. Collaborators create cost efficiency, flexibility and enhance speed in delivery of goods and services.

(4) **Competitors:** Competitors are the entities which are rivals against another. They include companies in the same industry or a similar industry which offers a similar product or service/substitutes. Marketers need to know the competitors and their strategies, their weaknesses and strengths and so on.

(5) **Context:** No business can operate in isolation. Context is the environment in which the company operates. It includes the economic environment, political environment, technological factors, regulatory environment, society's fashions and trends, i.e., the social/cultural environment etc.

MARKETING TACTICS:

Marketing tactics are the strategic actions that direct the promotion of a product or service to influence specific marketing goals of a company. The word tactics is derived from the Greek word 'taktica' which means arrangement. It referred to the art or science of moving skilfully the military or naval forces for battle. In the context of marketing, tactics refer to a set of strategic

methods intended to promote the goods and services of a business with the goal of increasing sales and enhancing competitive advantage.

(D) THE 7 TACTICS OF MARKETING MIX

There are seven key elements in the tactics of marketing mix. These 7 elements, if used in the right proportion, result in customer satisfaction while facilitating the business in focusing its limited financial resources in the most efficient manner.

Tactical decisions are taken in the following 7 areas:

(1) **Product:** A product is an offering that is produced to satisfy the needs of a certain group of people. The product can be intangible or tangible as it can be in the form of services or goods. Marketers must do an extensive research on the life cycle of the product that they are creating to ensure that they have the right type of product that is in demand.

The tactical decisions are made for product design, product features and quality, modification of product, re-introduction of product etc. to gain competitive advantage.

(2) **Service:** A service offering is a functional characteristic that defines a level of service for a price: it combines the service (utility) and a service level target (warranty) to bring value to the customer. Services are perishable in nature, in the sense that they are simultaneously created and consumed. They cannot be stored and delivered later. However the service quality varies as it depends upon the interaction between the service provider and customer. Keeping all these things in mind, tactical decisions are taken.

(3) **Brand:** Brand is unique identity that helps to identify the product or service in the market. It is the name, logo, symbol, caption etc. which comprise a set of unique associations that

differentiate the offering of a company from those of the competitors. Branding is a set of marketing and communication methods that help to distinguish a company or products from competitors, aiming to create a lasting impression in the minds of customers and enhance sales. The tactical decisions are taken for brand's identity, brand communication (such as by logos and trademarks), brand awareness, brand loyalty, brand management strategies etc.

(4) **Price:** Price is the exchange value of a product/ service in the market. It is the sum of all the values that a customer gives up to gain the benefits of having or using a product or service. Price is based on various factors such as cost of manufacture, demand, competition, objectives of the firm etc. While setting prices, tactical decisions are made with respect to the manufacturing cost, the market place, market conditions, brand, quality of product and the strategies to be used such as loss leader, penetration pricing, everyday low pricing etc.

(5) **Incentives:** Incentives are short-term tactical activities that are used to align the offerings value proposition with the needs of customers, collaborators and the company. Incentives are considered temporary measures and thus they do not require much approval to be initiated. Managers frequently rely on incentives to make their offerings more attractive to customers in monetary (discount, coupon, rebate etc.) or non-monetary (premium, contest, rewards etc.) terms Incentives are also given to employees to motivate them to sell more.

(6) **Communication:** Communication refers to informing the current and potential buyers about the features of the offering. Communication includes all the messages, media, and activities used by an organization to communicate with the market and help persuade target audiences to accept its

messages and take action accordingly. The basic objectives of all marketing communication methods are to communicate, to compete, and to convince.

Communication helps in highlighting product features, price, promotional offers, warranty, date of manufacture etc.

(7) **Distribution:** Distribution is the channel/ pipeline through which the offering reaches from place of manufacture to place of consumption. This can be done directly by the producer or service provider, or using indirect channels with distributors or intermediaries. Tactical decisions need to be taken regarding selection of distribution channel like franchise outlet, personal selling, online platform, vending machine etc.

The above mentioned 7 tactics help managers to successfully execute the marketing strategies of the company and deliver optimal value to the target customers.

(E) BUSINESS MODELS

Developments in the global economy have changed the traditional balance between customer and supplier. Globalization. new communications and the emerging technology has facilitated customers to fulfil their demands more quickly. Companies, today, therefore need to be more customer-centric, especially since technology has evolved to allow the lower cost provision of information and customer solutions. These developments in turn require the companies to re-evaluate the value propositions they present to customers. This new environment has also triggered the need to consider not only how to address customer needs more promptly, but also how to capture value from providing new products and services.

Without a well-developed business model, innovators will fail to either deliver or to capture value from their innovation. A Business Model is a conceptual structure that explains how a

company functions and how it intends to achieve its goals, the various processes and policies that it adopts and follows in the process. According to Management Guru Peter Drucker, A business model is supposed to answer who your customer is, what value you can create/add for the customer and how you can do that at reasonable costs.

Some definitions of business model are:

- A company's business model deals with the revenue-cost-profit economics of its strategy.
- Business model is a unique configuration of elements comprising the organization's goals, strategies, processes, technologies, and structure, conceived to create value for customers and thus compete successfully in a particular market.
- A viable business model is a strategy that has a reasonable probability of succeeding if well
- executed.
- A firm's business model is how it plans to make money long term.
- A business model describes how the engine of the business actually works
- In the most basic sense, a business model is the method of doing business by which a company can sustain itself - that is, generate revenue,

ROLE OF BUSINESS MODELS IN MARKETING MANAGEMENT:

Whenever a company is established, it employs a particular business model that describes the manner by which the company delivers value to customers, entices customers to pay for value, and converts those payments to profit. It thus reflects

management's philosophy about what customers want, how they want it, and how the company can organize to best meet the customers' demands and make profit.

Business model plays a vital role in the success of any company, as it explains how that business will earn revenue. For entrepreneurs, it aids in acquiring investors and establishing partnerships. Thus a business model describes the rationale of how a company creates, delivers and captures value for itself as well as the customers.

Business model innovation can itself be a pathway to competitive advantage if the model is sufficiently differentiated and hard to replicate for the existing as well as new competitors. For example, Dell and Walmart's business models were different, superior, and required supporting processes that were difficult for competitors to replicate. Both Dell and Wal-Mart have also constantly adjusted and improved their processes over time. Dell's competitors were incumbents who had difficulty in replicating its strategies. Another critical element of Dell's success, beyond the way it organized its value chain, was the choice of products it sold through its distribution system. Over time, Dell developed dynamic capabilities around deciding which products to build beside desktop and laptop computers, and has since added printers, digital projectors and computer-related electronics.

STRATEGIES FOR DEVELOPING A BUSINESS MODEL:

Understanding market size and the company's ability to penetrate that market is utmost important for the marketers. If the market is too small, the company won't be able to generate substantial revenue, no matter how innovative the product or how competitive its pricing is. Thus companies develop business models that provide directions to achieve goals and earn revenue.

Developing a business model can follow different paths. The strategies for developing business model that can help to evaluate the market are:

(I) Top Down Business Model Generation: The first approach, the Top Down Business Analysis starts with a broader consideration of the target market analysis which is followed by designing the specific offering. It is the older, more recognized approach – at least in the B2B world.

Top down approach starts with identifying the target market and creating an optimal value proposition for key players in the market. It can follow any of the two paths:

(1) By starting with customer analysis, that seeks to identify a need that is not fulfilled by any competitor. The manager has to find out the answers to questions like:

- What are the key problems faced by customers?
- Which of these problems can be solved by our company better than the competitors?
- Are there alternative offerings already in the market? How is the offering superior to them?

(2) By analysing the company's resources with an intention to identify core competencies and strategic assets leading to sustainable competitive advantage. The manager has to find out the answers to questions like:

- Which are our unique resources and core competencies that can create superior customer value and market value?
- Which are the needs of customers that can be satisfied with the company's resources?

In both the cases, the company has to consider customer needs and customer resources in order to develop sustainable business model.

(II) Bottom Up Business Model Generation: The second approach, the Bottoms Up Business Model starts with designing a particular aspect of the offering, followed by identifying the target customers whose unmet needs can be fulfilled by the offering. This is more recognized approach in the B2C (business-to-consumer) world.

The key to successful bottom up is that it starts from research and development process which leads to improvement of a particular product feature and or develops new ones. There is advancement in technology which can lead to improvement in the offering.

The manager has to find out the answers to questions like:

- How can the current offering be improved?
- How can the current products benefit from new technological advancements?
- How can the new technology be applied to develop innovative offerings?

Unlike the Top-down approach, this model starts with the product development rather than the desire to solve customer needs.

Companies constantly do research and development and discover innovative offerings that are better than the competitors. Business models have to be flexible change over time, depending on market situation. The basic reasons for change in business models are the changes in the target market and inappropriate/ outdated design of the model. The business models that were once successful can become obsolete with changing market

scenario. Hence marketers have to develop a feasible and flexible business model.

Designing good business model is an 'art'. The chances of good design are greater if entrepreneurs and managers have a deep understanding of user needs, consider multiple alternatives, analyse the value chain thoroughly so as to understand how to deliver what the customer wants in a cost-effective at the right time.

THE G-STIC FRAME WORK FOR MARKETING PLANNING:

A company's future depends upon its ability to develop successful market offerings that create value for the target customers, company and its collaborators. Market success is a result of a successful business model and an action plan to back the model. The process of developing such an action plan is described in the five activities comprising the G-STIC (Goal-Strategy-Tactics-Implementation-Control) framework, developed by Alexander Chernev, which is the cornerstone of market planning and analysis.

(1) **Goals:** Marketing plan starts with defining the goal that the company aims to achieve. Goal identifies the ultimate criterion for success, it is the end result that the company aims to achieve. Goal has two components:

(A) **The Focus,** which defines the metric reflecting the desired outcome of the company's action. Based on their focus, goals can be:

(i) **Monetary Goals:** These are the primary performance metric for profit enterprises. Monetary goals involve monetary outcomes such as net income, profit margin, earnings per share and return on Investment.

(ii) **Strategic Goals:** These are the main performance matric for non-profit enterprise as well as profit companies that have the primary function of supporting other profit generating offerings. Strategic goals include the non-monetary outcomes that are of strategic importance to the company, such as growing sales volume, creating brand awareness, increasing social welfare, facilitating employee retention etc.

(B) **The Performance Benchmarks** quantifying the goal and defining the time frame for it to be accomplished. The two types of benchmarks are:

(i) **Quantitative Benchmarks:** These quantitative benchmarks define the milestones to be achieved by the company with respect to its focus goal, for example, Increased market share by 10%, Increase the retention rate by 40% etc.

(ii) **Temporal Benchmarks:** These are set to identify the time frame for achieving a milestone setting a time line is a key strategic decision.

(2) **Strategy:** Strategy defines the company's target market and its value proposition in this market. The strategy is the backbone of the company's business model. Strategy involves two decisions:

(i) **Identifying Target Market:** The target market is identified by understanding the 5 C's:

- **Customers:** Company has to identify the customers whose needs have to be fulfilled.
- **Company:** The company has to manage the offering

- **Collaborators:** The collaborators work with the company on the offering.
- **Competitors:** Competitors with offerings that target the same set of customers.
- **Context:** The relevant context in which the companies operate.

(ii) Value Proposition: This defines the value that the offering tries to create for the participants in the market. Value proposition is created by development of positioning of the offerings to create a distinct image in the customers mind. Value proposition is created by using tactics in the marketing mix of the offering.

(3) Tactics: Tactics define the key attributes of the company's offerings, known as the marketing mix. Tactics are made in the areas of product, service, brand, price, incentives, communication and distribution. These seven tactics are the tools that the company uses to create value in the chosen market.

(4) Implementation: Implementation defines the processes involved in creating the market offering. It includes developing the offering and deploying the offering in the target market. Implementation has three key components:

(i) Business Infrastructure: This includes the organizational structure and relationship among relevant entities involved in creating and managing the offering.

(ii) Business Processes: These are specific actions needed to implement the strategy and tactics. These processes involve managing the flow of information, goods, services and money.

(iii) Implementation Schedule: Setting of implementatio schedule involves deciding on the timing and optim sequence in which the individual task to be performed t ensure effective and cost efficient completion of th project. Implementation schedule can also identify th key personnel and time line to be followed in managin individual task and the time frame for beginning and completion of the task.

(5) Control: Control evaluates the success of the company's activities over time by evaluating the company's performance and monitoring the changes in the market environment in which the company operates. There are two functions of control:

(i) Performance Evaluation: This involves evaluating the outcomes of the companies actions vis a vis its goals. Performance can be evaluated on several parameters such as market share, unit sales etc.

(ii) Environmental Analysis: This includes monitoring the environment in which the company operates to ensure that the company's action plan is as per the environment changes like the government regulations, decrease in competition etc. Analysis of environment becomes necessary because the current action plan has to be modified as per the dynamics of the environment in order to take advantage of opportunities and face the threats.

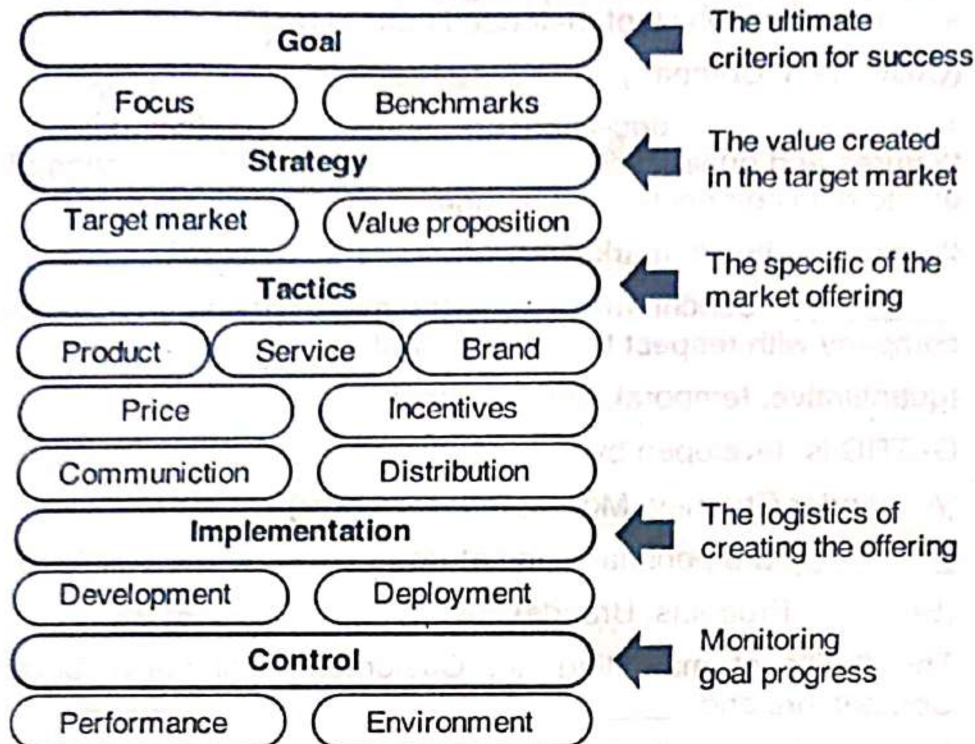

Fig. 1.4: G-STIC Action-Planning Framework

(Alexander Chernev G-STIC Action-Planning Framework)

The G-STIC framework offers an intuitive approach to streamlining a company's activities into a logical sequence that aims to produce the desired market outcome.

Objective Questions with Answers

(1) Fill in the Blanks:

(a) __________ is an important socio-economic activity that is essential for satisfaction of human wants.

(Marketing, Branding, Promotion)

(b) __________ is a business discipline.

(Marketing, Selling, Promotion)

(c) In __________ Planning the goals and strategies are evaluated from an overall perspective.

(Strategic, Marketing, Distribution)

(d) _________ are the potential buyers and it is important to identify them and determine which of their needs are to be satisfied.

(Customers, Company, Collaborators)

(e) The __________ decisions are made for product design, product features and quality, modification of product, re-introduction of product etc. to gain competitive advantage.

(tactical, strategic, marketing)

(f) __________ benchmarks define the milestones to be achieved by the company with respect to its focus goal.

(quantitative, temporal, performance)

(g) G-STIC is developed by _________.

(Alexander Chernev, Moore, Peter Drucker)

(h) _________ are perishable in nature.

(Services, Products, Brands)

(i) The 5 C's of marketing are Customers, Company, Collaborators, Competitors and __________.

(Context, Communication, Concept)

(j) __________ is the exchange value of a product/ service in the market.

(Price, Incentives, Cost)

[Ans.: (a - Marketing); (b - Marketing); (c - Strategic); (d - Customers); (e - Tactical); (f - Quantitative); (g - Alexander Chernev); (h - Services); (i - Context); (j - Price)]

(2) **State whether the following statements are True or False:**

(a) Incentives are long-term tactical activities that are used to align the offerings value proposition with the needs of customers, collaborators and the company.

(b) Strategic Planning is concerned with day-to-day performance and results.

(c) A strategic decision involves the creation, change or retention of a strategy.

(d) Collaborators work with the company to create value for target customers.

(e) Distribution is the channel/pipeline through which the offering reaches from place of manufacture to place of consumption.

(f) Bottom-Up approach, this model starts with the product development.

(g) Temporal Benchmarks quantifying the goal and defining the time frame for it to be accomplished.

(h) Value proposition is created by development of positioning of the offerings to create a distinct image in the customers mind.

(i) Performance can be evaluated on several parameters such as market share, unit sales etc.

(j) A firm's business model is how it plans to make money short term.

[Ans.: (a - False); (b - False); (c - True); (d - True); (e - True); (f - False); (g - False); (h - True); (i - True); (j - False)]

(3) Match the Columns:

A		B	
(a)	Incentives	(i)	Economic environment
(b)	Collaborators	(ii)	day-to-day performance and results
(c)	Context	(iii)	discount, coupon, rebate
(d)	Marketing Planning	(iv)	intuitive approach
(e)	G-STIC	(v)	suppliers and distributors

[Ans.: (a - iii); (b - v); (c - i); (d – ii); (e - iv)]

Question Bank for Self-Practice

(1) What do you mean by marketing? Discuss the nature of marketing.

(2) Write a note on: Marketing as an art, science and business discipline.

(3) Explain the nature of strategy. ***(Oct. 18)***

(4) Discuss marketing as a value creation process.

(5) Enumerate the marketing strategy interface.

(6) What are the difference between marketing planning and strategic planning? ***(Oct. 18)***

(7) Explain the five C framework.

(8) List and explain the seven tactics defining the marketing mix. ***(Oct. 18)***

(9) Enumerate the role of business models in marketing management.

(10) Discuss the G-STIC frame work for marketing planning.

(11) Write Short Notes on:

(a) Top-down business model generation.

(b) Bottom up business model generation.

(c) Five C framework in marketing strategy. ***(Oct. 18)***

UNIT - II

CHAPTE 2

Segmenting, Targeting, Positioning and Creation of Value in the context of Strategic Marketing

Learning Objectives

S-T-P Model

(A) Segmentation:

- Essence of Segmentation,
- Factors to be considered while Segmenting
- Key Segmenting Principles

(B) Identifying Target Customer:

- Factors to be considered while Targeting
- Targeting Strategies

(a) Strategic Targeting Criteria:

- Target Attractiveness
- Target Compatibility

(b) Essential Strategic Assets for Target Compatibility

(C) Creating Customer Value through Positioning:

- Role of Strategic Positioning
- Strategic Positioning Options
- Strategies for Creating Superior Customer Value

Creating Company Value:

- Understanding Company Value
- Strategically Managing Profits

Creating Collaborator Value:

- Meaning of Collaborators
- Collaboration as Business Process
- Advantages and Drawbacks
- Levels of Strategic Collaboration
- Alternatives to Collaboration
- Managing Collaborator Relations
- Gaining Collaborator Power
- Objective Questions with Answers
- Question Bank For Self-Practice

SEGMENTATION -TARGETING - POSITIONING (STP) MODEL

Market Segmentation is closely connected with marketing mix. It is supplemented by two concepts-targeting and positioning to complete the Segmentation-Targeting and Positioning (STP) Model, that facilitates sales promotion and ensures customer satisfaction.

It is this heterogeneity of markets that gives rise to the need for effective segmentation, targeting and positioning. The STP Model consists of three steps that help the company to analyse its offering and the way it communicates its benefits and value to specific groups:

Step 1: Segment the market.

Step 2: Target the best customers.

Step 3: Position the company's offering.

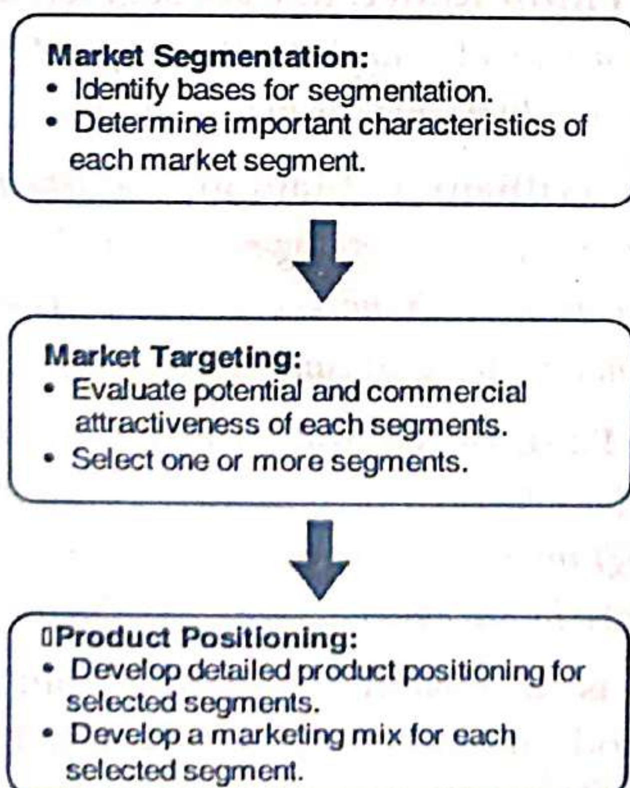

Fig. 2.1: STP Model

The STP Model is useful because it helps to identify the mo valuable types of customers, develop products and marketi messages that ideally suit them. This facilitates engaging wi each group better, personalizing the messages and enhanci sales.

(A) SEGMENTATION

Market segmentation refers to a process by which people wi similar needs and wants are grouped together for the purpose better focusing on and serving the market. It is the process dividing a market of potential customers into groups, segments, based on different characteristics. The segments create are composed of consumers who will respond similarly marketing strategies and who share traits such as similar interest needs, or location.

DEFINITIONS:

(1) According to **Philip Kotler,** Market segmentation means "*th act of dividing a market into distinct groups of buyers who migh require separate products and/ or marketing mixes.*"

(2) According to **William J. Stanton,** "*Marketing segmentatio consists of taking the total heterogeneous market for a product an dividing it into several sub markets or segments each of which ten to be homogenous in all significant aspect.*"

(3) According to **Paul, Busch and Michael,** "*Market segmentation is the process by which an organization attempts to match a tota marketing program to the unique manner in which one or mor customers behave in the market place.*"

Segmentation is a customer oriented philosophy and is consistent with modern marketing concept. It helps promote sales and offer convenience and satisfaction to the consumers. The

market segment, or group of buyers, toward which a company decides to direct its marketing plan is called the target market.

The concept of segmentation can be better understood when considered in the context of two alternative market approaches - Mass Marketing and One-to-one Marketing.

- **Mass marketing** is a scenario in which the same product/ service is offered to all customers. E.g. Coca-Cola.
- **One-to-one Marketing** is a scenario where the company's offering is customized for each individual customer. E.g. Designer clothes.

Strategic and Tactical Segmentation:

Based on the type of choice of criterion used to divide customers into segments, there are two types of processes:

- **Strategic (value-based) Segmentation:** It groups customers based on the 'value' that the company can create and capture from these customers. Strategic segmentation lays the groundwork for strategic targeting, which involves selecting one or more of the identified segments that the company will serve by tailoring its offerings to these customers' needs. In other words, strategic segmentation groups customers based on their needs and value they create for the company.
- **Tactical (profile-based) Segmentation:** It groups customers into segments based on their profile characteristics: demographics and behaviour. Tactical segmentation lays the groundwork for tactical targeting, which identifies the specific channels to be used to reach strategically viable customers in order to communicate and deliver the company's offerings. In other words, tactical segmentation identifies the way in which the company can reach these customers to communicate and deliver its offerings.

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ESSENCE OF SEGMENTATION:

Segmentation is the categorization process that groups customers by focusing on those differences that are relevant. The process of segmentation is based on the efficiency that the company's marketing activities can be improved by ignoring the non-essential differences among customers and treating customers with similar needs and resources as if they were a single entity. Consequently segmentation focuses marketing analysis on the important aspects of customer needs, enabling managers to group customers into segments and develop offerings for the entire segment rather than for each individual customer.

Market segmentation is one of the fundamental principles of marketing; given the fact that firms cannot serve all of their customers in a market because of diverse (heterogeneous) needs and preferences. The basic principle of market segmentation is that a heterogeneous group of customers can be grouped into homogeneous groups or segments exhibiting similar wants, preferences, and buying behaviour.

The basic essence of segmentation is in the creation of goods and services with particular features to recognize the need and serve a set of consumers.

Segmentation can involve two opposing processes:

(1) **Differentiation:** Segmentation is a differentiation process that aims to divide all the buyers in the market into groups by focusing on the differences in their needs and resources with respect to the company's offering.

(2) **Agglomeration:** Segmentation is an agglomeration process that aims to group individual buyers into segments by focusing on the similarities in their needs and resources with respect to the company's offerings.

Both differentiation and agglomeration aim to produce segments comprising customers with homogenous preferences such that the customers in each segment are similar to one another and at the same time different from those in the other segments. Thus, though differentiation and agglomeration are opposite processes, they aim to achieve the same goal-create distinct segments comprising customers that are likely to respond in the same way to the company's offering.

FACTORS TO BE CONSIDERED WHILE SEGMENTING THE MARKET / EFFECTIVE SEGMENTATION CRITERIA:

Market segmentation aims to divide markets comprised of individuals into groups whose characteristics are relatively homogeneous within each set or segment and heterogeneous between segments, based on an identified set of variables. There is no limit to the number of ways a particular market may be segmented in particular circumstance, but a useful segment must satisfy certain criteria. According to Kotler et al (2001), segmentation effectiveness depends on arriving at segments which are measurable, accessible, substantial, actionable and differentiable.

Marketers need to assess the effectiveness of a chosen segment based on following criteria:

- **Measurable:** A measurable segment is one where the size of the segment and the related purchasing power can be measured or quantified. The size of the chosen segment has to be measured in terms of the number of customers in the market, frequency of purchase and volume of purchase.

  The formula for measuring the size of a segment is:

  Size of a segment = Number of potential customers x Volume of purchase x Frequency of purchase.

Marketers must accurately identify the size of market segments and decide suitable strategies and efforts to be directed towards them.

- **Accessible:** According to Adcock et al (1998), accessibility is described as the degree to which a firm can reach intended target segment efficiently; that is the selected target market segments must be reachable with unique marketing communications and distribution channel, for a given product. The chosen market segment has to be accessible by the company as it needs to reach the customer in order to effectively sell their products. Sometimes there can be barriers to accessibility, such as a ban for certain products to be sold in certain countries. Thus the company while demarcating a market segment must consider the strengths and abilities of the company's marketing department.
- **Substantial:** In the words of Bearden et al (2004), Substantiality refers to the degree to which identified target segments are large enough or have sufficient sales and profit potential to warrant unique or separate marketing programmes. The market segments should be large and profitable enough to serve. The chosen segment needs to generate adequate income to break even and recover/ justify the investment made in the segment. In this context, a segment could be the largest possible homogenous group worth pursuing with a tailored marketing program.
- **Differentiable:** The segments have to be conceptually distinguishable and respond differently to diverse marketing mix elements and programs. For segmentation to be useful, customers must differ from one another in some important respect, which can be used to divide the large heterogeneous market. Even if some segments are overlapping, they have to

be differentiated from other segments and segment boundaries have to be stated clearly.

- **Actionable:** As the final criteria of evaluation, the company should have the ability to end up selling goods to the chosen segment and the chosen segment should have the need to actually end up purchasing the products. Actionability, according to Adcock et al (1998), refers to the degree to which effective programmes can be designed for attracting and serving segments. Therefore, segments selected must be reached and be acted upon.

KEY SEGMENTING PRINCIPLES:

In order to be effective, the process of grouping customers into market segments must follow four key principles:

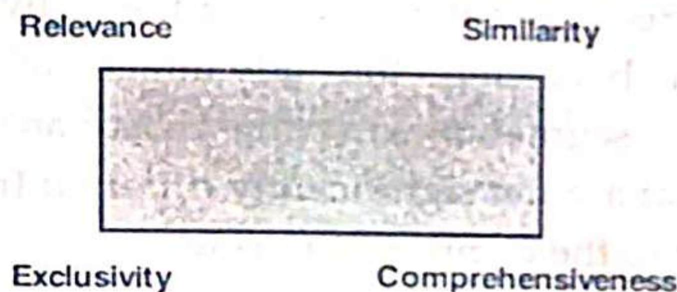

Fig. 2.2: Key Segmenting Principles

(1) Relevance: Because segmentation aims to facilitate targeting, it should group customers based on their likely response to the company's offerings. There is virtually an infinite criteria that could be used to divide customers into segments. Most of these criteria, however, are unrelated to the factors that underlie the company's targeting strategy and as a result produce market segments that do not facilitate the development of a meaningful strategy and tactics. Accordingly, segmenting markets without a particular targeting purpose in mind is most often a waste of company

resources that ends up distracting rather than facilitating managerial decision making.

(2) **Similarity:** Segmentation aims to group customers so that those within each segment are similar to one another (have homogenous preferences) in the way they are likely to respond to the company's offering. In general, a larger number of segments leads to greater similarity among the customers within each segment, with the resulting segments more likely to comprise customers with uniform preferences. At the same time, a more granular segmentation calls for the development of a greater number of customized offerings - an approach justified only in cases when the underlying differences between these segments are essential to the company's ability to create customer value. Therefore, the optimal degree of similarity among the individual customers stems from balancing the advantage of creating more homogenous segments with the disadvantage of creating segments that are not significantly different from one another with respect to the company offering.

(3) **Exclusivity:** In addition to being similar to one another, customers in each segment must be different (heterogeneous) from those in other segments with respect to the way they are likely to respond to the company's offering. Thus, segments should be mutually exclusive, meaning that customers with similar values and profits should be assigned to the same segment rather than be spread across segments.

(4) **Comprehensiveness:** An important market segmentation principle is that segments should be comprehensive, meaning that they should include all potential customers in a given market, with each customer assigned to a segment. Thus, segmentation should produce segments that are collectively

exhaustive, whereby no potential customers are left unassigned to a segment.

Thus following the key segmentation principles can help ensure the soundness of resulting segmentation and its feasibility as a basis for identifying viable target customers.

(B) TARGETING

Targeting or Target marketing is next to segmentation. It is the process of identifying customers for whom the company will optimize its offerings. Targeting basically involves evaluating each market segments attractiveness and selecting any one or more segments to enter. It can be the key to attracting new business, increasing sales, and making business a success.

Engaging in target marketing:

- provides an understanding of competition;
- gives insights into competitive advantage, and how this can be best applied;
- allows the company to better appreciate of what customers need;
- enables the company to produce more effective marketing plans;
- uses company resources more effectively.

IDENTIFYING TARGET CUSTOMERS:

The target market selected should be compatible with the overall marketing goal of the company. It should be profitable and have substantial number of customers. Targeting basically involves the identification of different needs for specific groups or segments of customers, deciding which of these groups the organization should target or serve (and on what basis) and then designing marketing mix programmes so the needs of these targeted groups are then more closely met.

TARGETING STRATEGIES:

The marketing manager identifies the target segments and t selects a targeting strategy that would be most suitable reaching them. Target marketing enables the marketing teams customize their message to the targeted groups in a focus manner. The targeting strategy is where the marketing mix com together to create the right offer and marketing approach for ea target segment. The most common approach / targeting strategi are:

(1) ONE FOR ALL STRATEGY: This strategy involv developing the same offering for all types of customers. ' 'blanket' approach is used with a strategy aimed at the entir market rather than any single segment, or combination o segments. A company will usually produce one undifferentiated product, relying on mass advertising and distribution to reach as many customers as possible.

'One for All Strategy' is most suitable where demand for a product is relatively homogeneous. It should also have the potential to yield significant economies of scale in both marketing and production. The existence of heterogeneous demand renders this approach to targeting unsuitable.

For example, a family of 6 members may require a bigger car whereas a family of 2 members may require a smaller car. Now the company cannot offer and expect both the above types of customers to buy same type of car. Thus it has to customize its offerings as per the needs and demand of customers.

(2) ONE FOR EACH STRATEGY: The 'One for Each Strategy' is based not only on the recognition that different segments exist in a market, but upon a decision to target several or all of these. The company designs a separate marketing

programme for each market segment it decides to serve. Because each segment is specifically targeted, the company expects to increase overall company sales and market share. Any increase must be compared with the greater costs of having many individual marketing programmes. Developing a separate offering for individual customer/ market segment can be profitable only when the value created by such customization is more than the cost incurred in developing the same.

There are several factors that affect the choice of an appropriate targeting strategy. The choice of marketing strategy is ultimately a question of comparing costs and benefits of each of the above mentioned approach.

STRATEGIC TARGETING CRITERIA:

Targeting involves two decisions:

(I) Strategic Targeting: This involves identifying which customer segments to serve and which to ignore. A key principle of strategic targeting is that the company should be able to identify markets in which it has superior resources and create superior value for its customers relative to the competitors.

(II) Tactical Targeting: It involves identifying effective and cost-effective ways to reach strategically viable customers. Tactical targeting links value-based segments to specific observable and actionable characteristics such as customer profile, demographic factors, purchase sensitivity etc. Tactical targeting is guided by two key factors:

- ✓ **Effectiveness:** A company's ability to reach all target customers
- ✓ **Cost Efficiency:** A company's ability to deploy its resources in a way that reaches only its target customers.

FACTORS TO BE CONSIDERED WHILE TARGETING:

Strategic targeting is guided by two key factors that are considered as key targeting criteria/ principles. These are the main factors to be considered while selecting the target market segment. They are:

(A) Target Attractiveness,

(B) Target Compatibility.

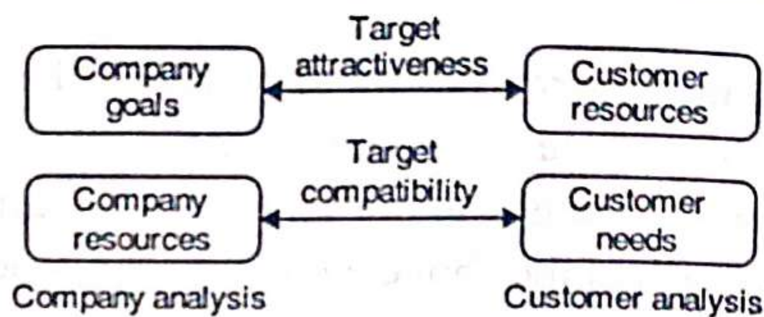

Fig. 2.3:

TARGET ATTRACTIVENESS:

Target Attractiveness reflects the ability of a given segment to deliver superior value to the company. The two general types of company values are:

(1) **Monetary Value:** Monetary Value refers to the customers potential to create profits for the company. It is the function of revenue generated by a particular customer segment (customer revenues) and the cost associated with serving this segment.

   (a) **Customer Revenues:** It includes the money received from the customers for the right to own and use the company's offering. The revenue is influenced by several factors such as size of market, growth rate, price sensitivity, competitive intensity as well as major factors like state of the economy, government regulations etc.

(b) **Cost of Serving Target Customers:** It includes expenses necessary to customize the offerings benefits to fit target customers' needs as well as to communicate and deliver the offering to these customers. This cost can include expenses incurred on promotional activities, customer incentives, loyalty programs etc.

(2) **Strategic Value:** Strategic Value refers to customers' ability to create non-monetary benefits that are of strategic importance for the company. The four basic types of strategic value are:

(a) **Product-line Value:** It refers to the collaboration between the primary offering and other offerings in the company's product line. For example, a streaming platform like 'Hotstar' offering the basic services to encourage customers to upgrade to the premium, paid version (freemium strategy). Also a retailer pricing the popular items in his store below cost to generate store traffic.

(b) **Scale Value:** It refers to the benefits derived from the scale of company's operations. For example, an airlines company that has large fixed cost and marginal variable costs, may target unprofitable customers due to the economics of its business model.

(c) **Communication Value:** It refers to customers potential to influence other buyers. In this the company may target customers not because of their own buying power and the profits they are likely to directly generate for the company but to take advantage of their social networks and their ability to influence other buyers. For example, a company might target an opinion leader like Amitabh Bachchan because of his ability to influence customers and expand the market for the company's offering.

(d) **Information Value:** It refers to the value of information provided by customers. The company may target specific customers who inform them about their needs, this can help design, communicate and deliver value for other customers with similar needs. The company can also target customers who are likely to be early adopters of the company's offerings (lead users), and benefit from their feedback to modify their offering.

The attractiveness of different segments depends on the company's goals. The set of customers that may be viewed attractive by a particular company may be viewed unattractive by the other.

A necessary but not sufficient prerequisite for successful targeting is the segments ability to create value for the company. Not only this, the company should be able to create superior value for their customers. Thus in addition to being attractive for the company, the target must be compatible with the company's resources.

TARGET COMPATIBILITY:

Target Compatibility refers to the company's ability to fulfil the needs of target customers better than the competitors. It reflects a company's ability to create value for customers. Target compatibility is a function of a company's resources like business infrastructure, skilled employees etc. and the degree to which these resources enable it to create superior value for target customers.

Essential Strategic Assets For Target Compatibility:

The key resources, also referred to as strategic assets, essential for the success of a company's business model include:

(1) **Business Infrastructure:** Business Infrastructure includes several types of assets. For instance, the manufacturing

infrastructure comprise of company's production facilities and equipment, service infrastructure includes call centres and CRM solutions, supply chain infrastructure includes procurement infrastructure and related processes etc.

(2) **Collaborator Networks:** Collaborator networks include two types of networks:

(a) **Vertical Network:** Here the collaborators are located along the company's supply chain i.e. suppliers and the distributors.

(b) **Horizontal Network:** Collaborators are not a part of company's distribution channel but coordinate with the company in developing the offering for the customers. E.g. Research and Development, Marketing promotions etc.

(3) **Human Capital:** Human Capital involves technological, operational, business and customer expertise of the company's employees. It is the key value creating asset for several organizations involved in research and development, consulting, education etc.

(4) **Intellectual Property:** Intellectual property covers the legal entitlement attached to intangible assets. The two types of assets included under this category are:

(a) **Industrial Property:** It includes inventions, trademarks, commercial names, indication of source of origin etc.

(b) **Copyrights:** It includes literary and artistic work such as music composition, paintings, sculptures, poems, photographs etc.

(5) **Strong Brands:** Strong brands create value by identifying the offering and generating meaningful associations that create value beyond the value created by the product and service

offered. They are desirable and highly attractive as the brand strength is reflected in the company's profit margin.

(6) **Established Customer Base:** An established customer base, consisting of loyal customers, can facilitate easy and quick acceptance of company's current and new offerings. Such customers can spread positive word of mouth about the company's offerings and help to generate new customers.

(7) **Synergistic Offerings:** Synergistic offerings facilitate customer acceptance of related company offerings. This helps to enhance overall sales.

(8) **Access to Scarce Resources:** The company that has access to scarce resource has competitive advantage as it restricts the strategic options of its competitors. For example, a company can have access to scarce resources and prime location for its retail outlet, which can be a competitive edge.

(9) **Access to Capital:** Availability of sufficient capital provides the company with resources to develop new and innovative products, develop unique advertising strategy and enhance its other assets necessary to create value for target customers.

A company's resources are target specific, in the sense that, resources compatible with one segment might not be compatible with the other. Assets that may be source of customer value for one segment can become liability for another. Therefore the company, while choosing the target market needs to evaluate its assets from the view point of the particular target segment to ensure compatibility of customer needs with its own resources.

(C) POSITIONING

Product Positioning is the act of fixing the focus of the product offer in the minds of target consumers. It creates a distinct image of the company and its offerings in the minds of the customers.

Positioning communicates unique meaning of the brand regarding performance, durability, benefits etc., that become the reason for customers to make purchases. For example, Volvo positions its cars as the safest vehicles on the road, Toyota emphasizes reliability etc.

The word 'positioning' has been popularized through the proposition: 'Positioning is what you do to the mind of the prospect. That is, you position the product in the mind of the prospect' (Ries and Trout, 1986).

The three common positioning strategies are:

(1) **Single-benefit Positioning:** It involves emphasizing the value delivered by the primary attribute the company believes will have a distinct message in the minds of customers. It will most likely provide customers with a compelling reason to choose its offering.

(2) **Multi-benefit Positioning:** It emphasizes the benefits delivered by the offering on two or more attributes. It captures multiple aspects of the offering's value proposition.

(3) **Holistic Positioning:** It emphasizes overall performance without highlighting individual benefits, attracting customers to choose the offering based on its performance as a whole rather than on particular benefits.

The final stages of target marketing involve the development of positioning strategies together with a supporting marketing mix. Effective product positioning takes place in the mind of the customer and relates to psychology and understanding how people perceive products and brands.

CREATING CUSTOMER VALUE THROUGH POSITIONING

Positioning is a strategic concept that guides company's decisions and is reflected in its communication strategies. Companies makes conscious decision to focus and present to its customers, only the important aspects of its offerings. Positioning is central to customers' perception and choice decisions. An offering's positioning strategy is outlined in a positioning statement that identifies the offering's target customers and its value proposition for these customers.

Effective positioning is one of marketing's most critical task and an attempt to make competitive brand look inferior.

ROLE OF STRATEGIC POSITIONING:

Product positioning is a concept that presents the product benefits to a particular target audience. Product positioning is the responsibility of marketers and product managers. Their close collaboration with market research and focus groups allows to determine the correct audience to be targeted based on favourable feedback. The importance of product positioning can be seen from the following:

(1) **Build Connect with customers:** Proper positioning is like an invisible bridge that must be strong, two-way oriented and stable. It helps to know the customers attitude regarding a particular product. Thus product positioning helps inappropriate targeting and audience segmentation which leads to better product penetration.

(2) **Beat Competition effectively:** Positioning helps to distinguish the company's product from that of the competitors. It highlights the important values and criteria customers use to make purchase decisions. It establishes the

unique characteristics of the product t and helps in enhancing the competitive strength of the organization.

(3) **Launch of new product:** Product positioning is a part of the overall business strategy. It provides clarity about where the product fits in the market, Ultimately, its helps customers understand why that product is the best option to meet their needs and encourages them to use the new upcoming products.

(4) **Plan Appropriate promotional strategy:** Product positioning is an important element of a marketing plan. Product positioning is the process marketers use to determine how to best communicate their products' attributes to their target customers based on customer needs, competitive pressures, available communication channels and carefully crafted key messages. All this goes a long way in designing appropriate promotional strategies.

(5) **Helps to win consumer confidence:** Product positioning is helps to associate the product with specific benefits that interest the target market. When consumers believe that the product delivers these benefits, they're more likely to buy the product. Thus product positioning helps to gain customer loyalty.

(6) **Meet demands of different types of customers:** There may be different types of users for a single product. A well drafted message along with use of appropriate channel would help to meet the varied needs of different types of customers.

(7) **Makes entire organisation market oriented:** There lies the synergy between market orientation and market positioning, It distinguishes the product of the organization from that of the competitor and helps customer to understand how well the product would meet their requirements. This helps the

organization to focus on the different types of customer demands.

(8) **Create customer awareness:** Good positioning cements the product in the customer's awareness. It gives the customer information about the product in unique way that resonates and states their mind forever. If executed correctly, positing creates value, ensuring that customer will pay more for the product because they understand and agree with the product's position

Thus positioning is built by the organization designing and promoting their product by highlighting various product features.

STRATEGIC POSITIONING OPTIONS:

(1) **The Quality Options:** The frequency of purchases of a product depends upon its quality. Product positioning strategy needs to be combined with other strategies to reap maximum benefits. Marketers often use quality characteristics to position their brands. One way they do it is with ads that reflect the image of a high-quality brand. Premium brands positioned at the high end of the market use this approach for positioning the product. It is necessary to focus on quality of product in case of quality positioning. E.g. BMM, Apple.

(2) **Value Options:** Positioning is done by placing emphasis on the value of the brand. The value must be judged by both buyers and sellers. Brands must always justify the buyer to enhance brand equity. Positioning by value means convincing the customer of getting the required value for their money.

(3) **The Pioneer Option:** Pioneers are products which are first ones to reach the hands of the customers. Such products that are positioned as pioneer become a benchmark. These products could be psychological or technical standards. Pioneer positioning helps the customer to remember the

products for a longer time and face the competition effectively.

(4) **A Narrow Product Focus:** This type of strategy focuses on the importance of consistency in products. Managers work to increase brand associations that is the USP instead of adding new associations.

(5) **Target customer focus:** Target focused positioning is applied when the brand or service is not popular. This strategy helps to promote the brand or service in a specialized target Niche. The importance of this positioning is to create awareness among people who need the products or services. Target customer focus is successful especially in case of small niches.

STRATEGIES FOR CREATING SUPERIOR CUSTOMER VALUE:

In order to succeed, an offering should aim to maximize its advantage on the attributes that are most important to target customers, while maintaining parity on the less relevant attributes. The manager can adopt one or more of the following three strategies for increasing the offering's value and creating a competitive advantage:

(1) **Improve the offering's performance on a given attribute:** The manager has to constantly find out the specific attributes that have to be improved. For example, to make a software program more attractive to customers who care most about performance, a company might consider improving its speed.

(2) **Add a new attribute on which the offering has an advantage:** The manager should try and increase the number of attributes on which customers evaluate the offering. For example, a software company might differentiate its offering from the competition by introducing a novel feature that is perceived as valuable by target customers.

(3) **Increase the perceived importance of an attribute on which the offering has an advantage:** An alternative approach to make an offering more attractive is to change the perceived importance of some of its attributes in a way that supports an attribute on which it is superior to competitive offerings. For example, a company with software that is relatively slow but is compatible with most other existing software products might promote the importance of compatibility.

The first two strategies involve improving the company's offerings, where the company aims to change buyers' beliefs about the relative importance of the different attributes of the offering. The above three strategies outline the key approaches a manager can take to improve the value of an offering.

While choosing which particular strategy to pursue, a manager must consider three factors:

- The strategy that is likely to have the greatest increase in customer value
- The strategy that is likely to have the greatest value (e.g., lowest cost) for the company
- The strategy that is the most difficult to copy by competitors.

Selecting the strategy that optimizes these three factors is likely to contribute to the offering's market success.

CREATING COMPANY VALUE

A company creates value for its stakeholders including customers and collaborators in a way that it captures value to achieve its goals. To create value for its stakeholders, the company must define the benefits it aims to receive from the offering and relate these benefits to its ultimate goals.

Creating company value can be viewed as a process of capturing value derived from the market exchange in which the company creates value for its customers and collaborators. Company value is defined relative to the company's goal and comprises all relevant benefits and costs associated with the offering.

An offering can create value for the company in three different domains: monetary, functional and psychological. These three domains define the overall benefit a company receives from a given offering and are explained as follows:

(1) **Monetary Value:** Monetary value involves the monetary benefits of the offering. It is directly linked to a company's desired financial performance and involves factors such as net income, profit margins, sales revenue, earnings per share, return on investment etc. Monetary value is the most common type of value sought for offerings managed by companies.

(2) **Functional Value:** Functional Value reflects the functional benefits and costs of the offering. An offering can create functional value for the company by facilitating other offerings in the company's portfolio. For example, an entry-level bike sold at cost can help the manufacturer gain market share among younger customers when they decide to trade up. Functional goals need not be related to profits. For example, creating value for society by improving different aspects of social welfare is a common goal for many non-profit organizations.

(3) **Psychological Value:** Psychological Value arise from outcomes of psychological importance for company employees and stakeholders. For example, a company's socially responsible actions such as preserving the

environment and supporting various social causes can help build the corporate brand and culture.

The offerings that demonstrate a company's leadership in a particular area, such as research and development, can also create value for the company by helping to attract valuable employees and promote brand loyalty.

These above mentioned three types of value correspond to the two types of company goals-Monetary and Strategic the monetary value corresponds to the company's financial goals and the functional and psychological value reflect the offering's ability to fulfil a company's strategic goals. Since maximizing monetary value is the primary goal for most companies, the offerings must either directly or indirectly be linked to profitability.

STRATEGICALLY MANAGING PROFITS:

To design successful profit-growth strategies, the manager must understand the key drivers of a company's bottom line, prioritize their impact, and focus on changes that will have the greatest impact on profits.

The net income of the company is found by the calculating the difference in revenues and costs. Therefore, to increase income they must increase revenues and/or reduce costs. Revenue growth can be achieved by increasing sales volume and/or changing the unit price of the offering. Moreover, the costs can be reduced by lowering various types of expenses, including cost of goods sold, R&D costs, marketing costs, administrative expenses and so on.

It should be noted that, both increasing sales revenues and decreasing costs can have a significant impact on profit growth. Therefore, increasing revenues rather than cutting costs is more likely to produce sustainable growth over time. Similarly, even though price optimization can have a significant impact on

profits, increasing sales volume rather than modifying price is usually the key source of sustainable profitability. Growing sales volume is often viewed as the main source of profit growth, considering optimization of the offering's price and costs.

To increase sales volume, a company can either focus on its current customers by increasing the quantity and frequency of purchases, or it can focus on acquiring new customers by following two strategies:

- Attracting customers who are new to the particular product category and thus growing the size of the entire market.
- Attracting customers who already buy competitors' offerings.

The most effective strategy to grow profits depends on a company's goals, resources, and the specific market conditions. In some cases, profitability can best be achieved by increasing sales volume, for example, by generating additional sales through current customers. At times, the company may also have to lower marketing and other related costs to achieve profit growth.

Managing Profit Growth:

Companies strive hard to increase their sales revenues to achieve long-term profitability. Sales growth can be achieved using internal resources (organic growth) or by merger or acquisition with another company. The two basic approaches for increasing sales revenues are:

(A) Growing Sales Volume,

(B) Optimizing Price.

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(A) INCREASING SALES REVENUE THROUGH SALES VOLUME:

Companies can adopt any of the three basic strategies for increasing sales volume:

(i) Market Growth,

(ii) Steal Share,

(iii) Market Penetration.

(1) Market-growth Strategy (also referred to as primary-demand strategy): This strategy involves increasing sales volume by attracting new-to-the-category customers who currently are neither using the company's or competitors' offerings.

(2) Steal Share Strategy: This is opposite of market growth strategy. It involves growing sales volume by attracting customers who are already category users and are buying competitors' offerings.

(3) Market Penetration Strategy: The market-penetration strategy involves increasing sales volume by increasing the quantity purchased by the company's own customers rather than trying to "steal" competitors' customers or attract new buyers to the product category.

We can conclude that the market-growth and steal-share strategies reflect a company's efforts to manage customer adoption, and the market-penetration strategy reflects a company's efforts to manage customer usage of the company's offerings.

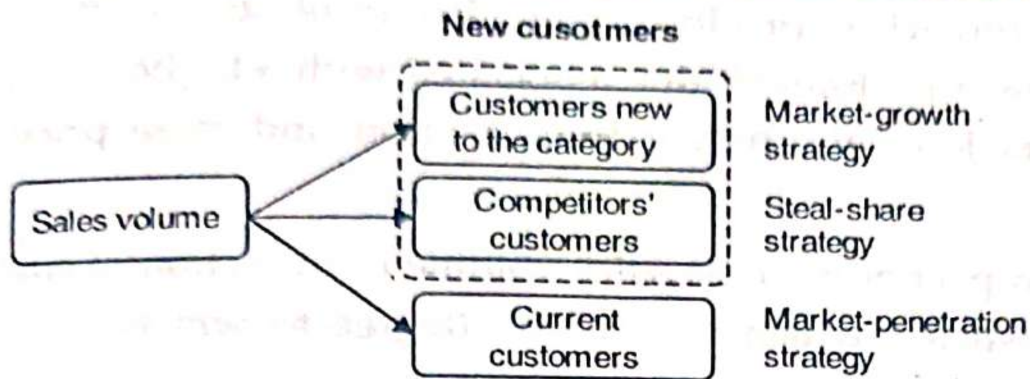

Fig. 2.4:

To grow sales volume, a company must create value for its target customers. This can be achieved by pursuing any of the four core strategies:

(i) By increasing awareness of the offering by communicating its benefits to target customers.

(ii) By increasing the availability of the offering by expanding the manufacturing capacity, enhancing distribution coverage, strengthening retailer support, and minimizing stock-outs.

(iii) By increasing the attractiveness of its offering by improving product functionality (e.g., by improving the quality of the raw materials and/or by using superior technologies), by realigning product benefits with customer needs and/or improving service quality etc.

(iv) By improving the affordability of the offering by lowering price, offering incentives, and decreasing the other costs associated with the offering.

(B) INCREASING SALES VOLUME BY OPTIMIZING PRICE:

One of the most crucial component of managing sales revenues is setting price of the offering. The impact of pricing on sales revenues depends on the way customers react to changes in price. Although, raising prices may increase profit margins and have

positive impact on profits, it may also decrease sales volume due to the lower customer value associated with a higher price. Thus, managers have to analyse the situation and raise price of the offering.

The impact of price on sales volume is a function of customers' price elasticity, which reflects the degree to which a change in price leads to a change in quantity sold. The lower the price elasticity, the more likely it is that raising the price can increase sales revenues. Thus, in cases where price elasticity is low and the decrease in sales volume caused by a higher price can be offset by an increase in revenues attributed to the higher price, raising prices can lead to greater sales revenues. On the other hand, when price elasticity is high and lost revenues from a price cut can be offset by an increase in sales volume, lowering price can lead to higher sales revenues.

There can be two issues in managing price of an offering:

- The term price is used majorly to reflect not only the list price of an offering but also various monetary incentives that accompany the list price. These incentives include price reductions, coupons, rebates, and trade discounts such as volume discounts and allowances.
- Managing sales revenues requires optimizing not only an offering's price but also its price incentives. Because a manufacturer's offerings are in most cases sold by a third party (wholesalers, retailers, distributors, and dealers), its sales revenues are determined not so much by the retail price that customers pay as by the (wholesale) price the company charges its channel partners. Thus, managing price involves managing not just the final customer price but also managing the prices throughout the retail channel.

Managing Profit Growth by Lowering Costs:

An alternative strategy to growing profits involves lowering costs rather than increasing sales revenues. A company's costs can be classified into four categories:

(1) **Lowering the Cost of Goods Sold:** The term 'cost of goods sold' describes expenses directly related to creating the goods or services being sold and can have both a variable (e.g., the cost of raw materials and the cost of turning raw materials into goods) and a fixed component (e.g., the depreciation of machinery). The two basic ways to lower the cost of goods sold are:

   (a) To lower the costs of inputs such as raw materials, labour etc. used in developing the company's offering. Lowering the costs of inputs can be achieved by outsourcing, switching suppliers, and adopting alternative technologies that use more cost-effective inputs.

   (b) To lower the costs of the processes that transform the inputs into the end product, such as optimizing operations and adopting alternative technologies that use more cost-effective processes.

(2) **Lowering Research and Development Costs:** Research and development involves fixed costs necessary for designing the company's offering and most of the times, accounts for a significant portion of the overall costs. Companies can decrease the R&D costs by adopting technologies that shorten the product development cycle, minimize equipment costs, manage labour costs etc.

(3) **Lowering Marketing Costs:** Depending on the company's business model, marketing costs can account for a significant portion of the overall costs associated with the offering.

Marketing costs involve several different types of expenses. The cost of incentives involves consumer-focused promotions such as price reductions, coupons, rebates, contests, sweepstakes, and premiums.

(a) **Communication costs** comprise advertising expenditures (television, radio, print, online, outdoor, point-of-purchase, and event advertising), public relations expenditures (press coverage, product placement, and social media),and personal selling (sales force).

(b) **Distribution costs** reflect the margins received by distributors, cost of the sales force and trade incentives such as trade allowances, volume discounts, and co-op advertising allowances.

(c) **Miscellaneous marketing costs** reflect the costs of factors such as marketing research and marketing overheads.

(4) **Lowering Miscellaneous Other Costs:** In addition to decreasing the cost of goods sold, R & D expenditures, and marketing expenses, overall costs can be lowered by decreasing all other costs such as administrative costs, legal costs, and cost of capital.

CREATING COLLABORATOR VALUE

Collaboration involves entering into a relationship with an external entity and delegating to it a subset of the company's activities. Value creation through collaboration is when the value is jointly created by the company and its collaborators as against the traditional approach in which a company alone creates customer value. The concept of a fully integrated company with its own supply, manufacturing, and distribution has been replaced with that of outsourcing, which delegates many business functions to external entities. This is done as modern

organizations believe that greater effectiveness and cost efficiency can be achieved from greater expertise and scale of operations.

Collaboration brings together different entities - suppliers, manufacturers, distributors (dealers, wholesalers, and retailers), service providers, advertising agencies, marketing research companies etc. to create a sustainable value exchange. Because it captures the relationships between business entities, collaboration is often viewed strictly as a business-to-business process unrelated to the company's consumer-focused activities. This is because business and consumer markets are very different on several dimensions, including the type of customers served, type of products and services offered, the selling process, and the nature of relationships between the buyer and the seller. However, the relationship between a company and its collaborators should always be considered in the context of creating value for target customers.

The success of this collaboration is determined to a large degree by the ability of the manufacturer to create value not only for the retailer but also for the end customer.

MEANING OF COLLABORATORS:

Collaborators are entities that work with the company to create value for target customers. Collaboration is a value-creation process that spans the processes of designing, communicating, and delivering value to target customers. It can occur in three domains:

(1) **Value-design Collaboration:** including product and service development, brand building, price setting, and incentive design

(2) **Value-communication Collaboration:** including advertising, public relations, and social media

(3) **Value-delivery Collaboration:** including the actual delivery of a company's products and services.

Most collaborators are business entities hence collaboration typically involves business-to-business relationships aimed at creating customer value.

COLLABORATION AS BUSINESS PROCESS:

As a business process, collaboration aims to improve a company's ability to create value for its target customers in a way that helps achieve its own strategic goals.

ADVANTAGES OF COLLABORATION:

Collaborative work helps to improve business performance and enhance the team's skills to work toward a greater goal for the business. Collaboration leads to innovative approaches to work, new processes to accomplish key tasks and shared ideas on varied responsibilities. There are both advantages and limitations of collaboration.

Some of the major advantages of collaboration are:

(1) **Effectiveness:** Collaboration enables companies to specialize in a particular aspect of the value-delivery process such as R & D, manufacturing, distribution etc. and thus enables each party to take advantage of the other's expertise, it can provide both entities with a competitive advantage.

(2) **Cost Efficiency:** Collaboration not only facilitates the effectiveness of the value-creation process, it can also make it more cost efficient because by specializing in a given function, each collaborator can achieve greater economies of scale and experience.

(3) **Flexibility:** Since collaborating companies do not require to develop in-house expertise, they require lesser commitment of resources and, hence, have much greater flexibility in terms

of switching technologies, entering new markets, and exiting existing ones.

(4) **Speed:** Collaboration enables a company to achieve the desired results much faster than building in-house expertise. For example, a manufacturer can gain access to target markets virtually overnight using an existing distribution chain, whereas launching its own distribution channel would take considerably longer.

DRAWBACKS OF COLLABORATION:

Despite its numerous benefits, collaboration has several drawbacks. Some of them are:

(1) **Loss of Control:** Delegating certain aspects of a company's activities to an external entity often leads to loss of control over the value-creation process. For example, outsourcing some of the manufacturing/ assembling operations may hinder the company's ability to monitor production processes and product quality.

(2) **Loss of Competencies:** Outsourcing key activities tends to weaken a company's core competencies. For instance, if a company frequently outsources its R & D activities, it may over a period of time be unable to come up with innovate products.

(3) **Empowering Competition:** Outsourcing key activities also might enable collaborating entities to develop a set of strategic competencies, thus becoming a company's potential competitor. Companies, while taking most business decisions, enter into a collaborative relationship after thoroughly analysing the relevant benefits and costs. When the benefits from collaboration are far more than the corresponding costs for each of the relevant parties, the collaboration tends to be sustainable and vice versa.

LEVELS OF STRATEGIC COLLABORATION:

A company's relationship with its collaborators can vary in t extent to which it is formalized. Based on the nature of t relationships among collaborating entities, collaboration can either explicit or implicit.

(1) Explicit Collaboration: It involves contractual relationship such as long-term contractual agreements, joint ventures, a franchise agreements. The key advantage of expli collaboration is that it fosters a formal relationship amo collaborating entities, which ultimately leads to great effectiveness and cost efficiency. However, expli collaboration has limitations, such as lower flexibility, great switching costs, and the strategic risk of creating a potenti competitor by sharing proprietary information (e.g. pricin policies, profit margins).

(2) Implicit Collaboration: It does not involve any contractu relationships and is much more flexible than explici collaboration. However, because of flexibility, there i inability to predict the behaviour of various channe members. Also there is the lower level of commitment resulting in unwillingness to invest resources to customiz the channel for a particular manufacturer. As compared t explicit collaboration, implicit collaboration is also likely t lead to lower cost efficiency resulting from a lower degree o coordination.

ALTERNATIVES TO COLLABORATION:

A common alternative to collaboration involves insourcing the activities performed by collaborators by creating a new, company controlled entity, or by acquiring or merging with an existing entity.

Depending on the relative position of the entities in the value-creation process, there are two types of integration:

(1) Vertical Integration,

(2) Horizontal Integration.

(1) **Vertical Integration:** Vertical integration involves the acquisition of an entity occupying a different level in the value-delivery chain. Depending on the relative position of the entities, there are two common types of vertical integration:

(a) Forward Integration - Extending ownership of activities downstream (toward buyers). E.g. A manufacturer acquiring a retailer to establish its own distribution system.

(b) Backward Integration - Extending ownership upstream (toward suppliers). E.g. A retailer acquiring a wholesaler or a manufacturer.

Vertical integration is generally adopted by companies that control the key aspects of the value-delivery process. For example, Starbucks directly manages all aspects of its business, including sourcing, roasting, distributing, and serving the coffee.

(2) **Horizontal Integration:** Horizontal integration involves acquiring a business entity at the same level of the value-delivery chain. For example, a retailer acquiring another retailer or a manufacturer merging with another manufacturer.

Horizontal integration occurs among entities with similar core competencies - a common scenario for companies seeking economies of scale through consolidation, and for those seeking economies of scope through diversification.

Horizontal integration is generally adopted by companies for a variety of reasons, including gaining access to new markets, acquiring the rights to research, reducing the competition in strategically important markets, and gaining power over the other entities in the value-delivery chain.

MANAGING COLLABORATOR RELATIONS:

A company may take maximum efforts to optimize the value of its offerings for collaborators but still at times, the company and collaborator goals may not be aligned. As a result, collaborator relationships can face problems resulting from the different goal-optimization strategies pursued by collaborating entities. Another reason for such problem is the power imbalance of the collaborating entities that lead to conflicts.

COLLABORATOR POWER:

Collaborator power refers to the ability of a given company to exert influence over another entity. This influence often leads to an imbalance in the value exchange in favour of the more powerful entity and to market outcomes such as higher prices, discounts, and allowances; preferential access to scarce resources; and premier shelf space and product-delivery schedules.

FACTORS AFFECTING COLLABORATOR POWER:

Power in collaborator relationships is a function of a number of factors, including the differentiation of collaborator offerings, collaborator size, strategic importance of the collaboration for each entity, and their switching costs.

(1) Offering Differentiation: Companies with differentiated offerings in high demand are likely to have more power over their collaborators. For example, companies with strong brands such as Pepsi, Nike, Apple etc. have more power dealing with their distribution partners than companies with lesser known brands.

(2) **Collaborator Size:** Consolidated entities, both manufacturers and distributors, are likely to have more power over fragmented ones. For example, large consumer packaged goods manufacturers such as Procter & Gamble, Unilever, Amul etc. often receive preferential treatment at retail outlets in terms of better shelf space, lower volume discounts etc. as compared to smaller manufacturers.

Similarly, relative to smaller retail stores, retail giants Big Bazar, D-Mart etc. receive various monetary and non-monetary benefits from manufacturers, including preferential volume discounts, promotional allowances, customized product-delivery schedules etc.

(3) **Strategic Importance:** An entity is more powerful when it accounts for a significant portion of its collaborators' profits. For example, Walmart is in a position of power when negotiating with small manufacturers because their individual net contribution to Walmart's net income is low, whereas for many of them Walmart accounts for a substantial part of profits.

(4) **Switching Costs:** An entity is more powerful when the switching costs of its collaborators are high and its own switching costs are low. Such switching costs may arise due to factors such as high level of systems integration between a company and its collaborator, long-term contractual obligations etc.

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Objective Questions with Answers

(1) Fill in the Blanks:

(a) __________ is the process of identifying customers for whom the company will optimize its offerings.

(targeting, segmentation, collaboration)

(b) __________ is the key value creating asset for several organizations involved in research and development, consulting, education etc.

(Human Capital, Collaborator Networks, Copyrights)

(c) __________ is the act of fixing the focus of the product offer in the minds of target consumers.

(Product Positioning, Marketing, Segmentation)

(d) The ________ involves increasing sales volume by increasing the quantity purchased by the company's own customers.

(market-penetration strategy, steal share, market growth)

(e) __________ costs reflect the costs of factors such as marketing research and marketing overheads.

(Miscellaneous marketing, Distribution, Communication)

(f) __________ Collaboration includes product and service development, brand building, price setting, and incentive design.

(Value-design, Value -Communication, Value-Delivery)

(g) __________ is extending ownership of activities downstream.

(forward, backward, horizontal)

(h) __________ integration involves acquiring a business entity at the same level of the value-delivery chain.

(Horizontal, Backward, Vertical)

(i) Collaboration leads to __________ approaches to work.

(innovative, creative, imaginative)

(j) __________ goals need not be related to profits.

(Functional, psychological, monetary)

[Ans.: (a - Targeting); (b - Human Capital); (c - Product Positioning); (d - market-penetration strategy); (e - Miscellaneous marketing); (f - Value-design); (g - Forward); (h - Horizontal); (i - Innovative); (j - Functional)]

(2) **State whether the following statements are True or False:**

(a) Functional value create value for the company by helping to attract valuable employees and promote brand loyalty.

(b) Holistic Positioning emphasizes the benefits delivered by the offering on two or more attributes.

(c) Industrial Property includes inventions, trademarks, commercial names, indication of source of origin etc.

(d) Target Compatibility refers to the company's ability to fulfil the needs of target customers better than the competitors.

(e) Information value refers to the value of information provided by customers.

(f) Communication value refers to the collaboration between the primary offering and other offerings in the company's product line.

(g) The 'One for Each Strategy' is based only on the recognition that different segments exist in a market.

(h) Target marketing enables the marketing teams to customize their message to the targeted groups in a focused manner.

(i) A measurable segment is one where the size of the segment and the related purchasing power can be measured or quantified.

(j) Mass marketing is a scenario in which the different product/ service is offered to all customers.

[Ans.: (a - False); (b - False); (c - True); (d - True); (e - True); (f - False); (g - False); (h - True); (i - True); (j - False)]

(3) **Match the Columns:**

A	B
(a) One-to-One Marketing	(i) Suppliers and Distributors
(b) One for All strategy	(ii) Research and Development
(c) Vertical Network	(iii) Designer clothes
(d) Horizontal Network	(iv) Primary demand strategy
(e) Market growth strategy	(v) Blanket Approach

[Ans.: (a - iii); (b -v); (c - i); (d - ii); (e - iv)]

Question Bank for Self-Practice

(1) Discuss the Essence of segmentation.

(2) What are the factors to be considered while segmenting?

(3) Explain the key segmenting principles in detail.

(4) Explain the key segmenting principles of relevance, similarity and exclusivity. ***(Oct. 18)***

(5) What are the factors to be considered while targeting? ***(Oct. 18)***

(6) Discuss in brief the targeting strategies.

(7) What are the essential strategic assets for target compatibility?

(8) State the role of strategic positioning.

(9) Discuss the strategic positioning options.

(10) What is strategically managing profits?

(11) What is company value and explain how companies strategically manage profits? ***(Oct. 18)***

(12) What do you mean by collaborators? Explain collaboration as business process.

(13) Explain the advantages and drawbacks of collaboration.

(14) Discuss the levels of strategic collaboration.

(15) **Write short notes on:**

- (a) Company Value.
- (b) Collaborator Value. ***(Oct. 18)***
- (c) Managing collaborator relations.
- (d) Gaining collaborator power.

UNIT - III

CHAPTER 3

Strategic Decisions in Product, Services and Branding

Learning Objectives

Managing Product and Services:

- Factors affecting Product and Services Decisions

Managing New Products:

- Forecasting New Product Demand using Primary and Secondary Data

New Product Adoption:

- Understanding New Product Adoption
- Diffusion of New Offerings
- Factor influencing Diffusing of New Offering
- New Product Development Process
- Managing risk in New Product Development
- Moore's Model of Adoption of New Technologies
- Managing Product Lifecycle at various Stages

Managing Product Lines:

- Managing Vertical and Horizontal Product Line Extensions
- Managing Product Line Cannibalization
- Managing Product Lines to Gain and Defend Market Position

Brand Tactics

- Meaning and Definition
- Brand Identify
- Brand as Value Creation Process
- Brand Hierarchy

Brand Dynamics

- Brand Repositioning
- Brand Extension
- Brand Equity and Brand Power
- Measuring Brand Equity
- Objective Questions with Answers
- Question Bank For Self–Practice

MANAGING PRODUCTS AND SERVICES

Product and Service Management is the process of planning, designing, developing, maintaining and improving a product or service through all stages of its lifecycle in response to the market opportunities. These include the conception of the new product to its design and launch and later through its growth, maturity and the decline stages. It is based on the product lifecycle theory. The product or service strategy needs to be tailored specifically to the requirements of the target market.

The managers try to optimize the benefits and value that the customers as well as the collaborators derive from the company's products and services. In the process, they must consider the 5 key elements (also known as the 5 C Framework) comprising Company, Collaborators, Customers, Competitors and Context in which the company operates, along with the offerings marketing mix.

FACTORS AFFECTING PRODUCT AND SERVICE DECISIONS:

Products and service decisions play an important role in the company. It involves various decisions in order to create and manage the company's offerings effectively. There are various factors that influence the product and service decisions because every business is based on its product specialization that has its own goals and strategies for marketing. If a business wants to maintain its market share at a certain category, it should improve or modify an existing product in order to compete with the similar products in the market.

The factors that affect the product and services decisions are as follows:

(1) **Performance:** Performance of products depend on different characteristics. They vary from product to product. The main principle when deciding the level of performance of a given offering is to boost its value for relevant market operations such as target customers, company and collaborators. In some cases if the offerings is a part of product line, the performance also need to be coordinated with the other offerings. For example: Cars vary in engine power, acceleration, comfort, safety and fuel efficiency. Same way laptops vary in purchasing power, battery life, display size and connectivity, On other hand snacks vary in taste, nutritional value and calorie content.

(2) **Consistency:** The main contributor to the success of company is consistency in service delivery. Variability is the characteristic of services which makes consistency an important part in service delivery. An important aspect of designing an offering is ensuring that in- kind products and services are identical and consistent with specifications. For example: The success of Companies like Café Coffee Day, KFC, Starbucks.

(3) **Reliability:** Reliability refers to the fact that the product or service will operate as per the specifications and will not malfunction during the process of its projected life cycle. It is often used as a differentiating point to create a unique position for a company's offering. For example: FedEx promises "absolute overnight" next day delivery service, Verizon claims to be the most reliable wireless network in the United States with a call completion rate of more than 99.9%.

(4) **Durability:** Product design also involves to consider the expected length of offering's life cycle. Durability is an

important consideration in buyer's decision process. Customers prefer the products that are more durable. Durable products help the companies to attract new customers and builds loyalty among existing customers. On the other hand, it tends to have a negative impact on the frequency of repeat purchases because the users are often reluctant to replace fully functioning products with the new ones. Hence the manufacturers have to design superior product models that will motivate customers to upgrade.

(5) **Compatibility:** It refers to the degree to which an offering is consistent with certain already existing standards and complementary products. Compatibility can be used strategically by companies to create barriers to entry by ensuring that offerings are uniquely compatible with customers' existing systems and processes. Product compatibility is also an effective strategy in networked environments where users are compiled to use specific standards.

Compatibility is also a key consideration in multipart pricing, where a company charges a relatively low price for the first part of the offering and higher prices for the complementary parts. In this case, unique compatibility is essential so that only parts manufactured by the same company can work together. Example: Gillette manufactured blades should fit a Gillette razor.

(6) **Ease of use:** Ease of use is an important aspect of many products and services. There is a common misconception that greater functionality, such as a greater number of features, generally leads to greater customer satisfaction. In reality, however this may not be true, adding functionality in cases when customer lack the knowledge necessary to utilise it can backfire.

(7) **Technological design:** Two development methods depending on the novelty of the offering can be identified as product innovation and product variation. The product innovation approach involves technology based innovations and innovative use of existing technology to design new offerings. Product variation includes minor changes to the firms offering such as adding different colours, flavours, tastes, sizes, designs, or packaging variations.

(8) **Degree of customization:** When designing its offerings, a company needs to decide on the degree to which these offerings will be customised for target customers. At one end, the company may decide to pursue a mass production strategy, offering the same products and services to all customers. On the other hand, the company may pursue one to one customisation in which the company's products and services are customised for each individual customer.

A compromise between the mass- production approach and the one-to-one customisation approach is segment based customisation. By developing offerings for groups of customers with similar needs, segment based customisation allows companies to develop fewer offerings while ensuring that these offerings fit customer needs. Example: Lenovo offers more than 100 options from which customers can choose to customise their computers. Nike offers more than 10,000 different colours and design sport shoe customisation through its website nikeid.com.

(9) **Form:** Product design involves decisions concerning the physical aspects of the offerings such as the shape and size. Design plays a significant role in manufacturing, transporting, storing, and consuming the product. Packaged products are available in different shapes and sizes as customers preference varies as per the amount they consume.

Example: Johnson and Johnson's pain relief medicine Tylenol is available in more than fifty different SKU forms i.e. regular, extra strength and children's dosages: normal and extended relief, tablets, caplets, geltabs, liquid etc., available in different sizes.

(10) **Style:** The look and feel is important for products that have self-expressive function such as luxury cars, design furniture, fashion appeal, etc. and could be less relevant for utilitarian products such as manufacturing equipment. Because product styling can create value above and beyond the functional characteristics of the product, it is used by the companies to differentiate their offerings from the competitors.

(11) **Packaging:** Packaging provides various functions such as protecting the product during transportation and storage, storing small items into larger packages, preventing tampering, theft, providing convenience in transportation handling, storing, display, sale and consumption, offering information on how to transport, store, use and dispose of the product and promoting the product to potential buyers by providing them with reasons to choose it, Packaging can also be used to create value and beyond the value created by the product itself. Example: Tiffany's signature blue box highlights the exclusivity of the offering and at the same time strengthens its brand image and helps differentiate it from the competitors.

Thus, in deciding the characteristics of the individual products and services, companies must decide how to differentiate them from the other offerings in their product lines and also how to manage products and services throughout their lifecycles.

MANAGING NEW PRODUCTS

New products and services are the main reasons for the continuous growth that helps companies to maintain their market position by taking the benefit of the changes in the market to create superior customer value. The decision for launching new offers depends purely on the demand of the market on such offers. The company needs to know the details of the target market and its size in order to plan the strategy for offers. This process of estimating the size of the potential market is referred to as demand forecasting. There are two common types of demand forecasts:

(1) **Market Forecasts:** Market forecasts is the estimation of the total sales volume that can be achieved by all companies in a given market. Forecasts of market potential are usually used to make market entry and exit decisions, resource allocation decisions, and to set goals and evaluate performance.

(2) **Sales Forecasts:** Sales forecasts are an estimation of the total sales volume which can be attained within a given time frame. Sales forecasts are used usually to make entry and exit decisions like market forecasts, allocate resources, plan production capacity, and evaluate the impact of various marketing mix variables on sales.

Furthermore, based on the type of data they utilize, there are two types of demand-forecasting methods:

(1) Collecting and Analysing Primary Data which is the data collected especially for the purpose of demand forecasting.

(2) Analysing Secondary Data that is the existing data.

FORECASTING NEW PRODUCT DEMAND USING PRIMARY DATA:

The new data that is collected and analysed to gain the insights into the process of adoption, speed of adoption and estimating offerings potential market is the primary data forecasting. There are two types of primary-data demand forecasts: expert judgment forecasts and customer-research forecasts.

(1) **Expert-judgment forecasts:** It is the forecast that rely on experts' opinions to estimate market demand. Depending on the nature of the expert's background, the three main categories of forecasts are:

  (a) **Executive forecast:** It a top-down approach in which the forecast is based on the aggregated opinion of a company's top executives and senior managers.

  (b) **Sales force forecast:** It is a bottom-up approach in which the forecast is based on the aggregated opinion of a company's sales force and sales managers.

  (c) **Industry forecast:** It is based on the aggregated opinion of industry experts, such as industry analysts, executives, managers, and sales forces from competitive companies.

(2) **Customer-research forecasting:** It involves examining the customers' reaction to the offering at different stages of the product development process. The two most popular methods of customer-based forecasting are:

  (a) **Concept testing:** It is the process in which the consumer response to a particular offering is evaluated before its introduction to the market. Concept testing can be based on a description of the offering or, alternatively, can involve a fully functional prototype. Concept testing provides only rough estimates of sales volume.

(b) **Market testing:** It relies on test markets to estimate market potential and future sales volume. It is used to make a decision before launching a product whether to go or not to go for launching it. It is a litmus test that also tests specific aspects of the offering's marketing mix. Test markets aim to duplicate all relevant aspects of the environment in which the company's offering will be launched i.e. offering related to advertising and incentives, competitive offerings, and point-of purchase environment so that the test market outcome can be generalized to more general or national sales forecasts.

Due to its relatively high costs, market testing is normally used only for products that successfully pass the concept testing stage.

FORECASTING NEW PRODUCT DEMAND USING SECONDARY DATA:

Secondary data forecasting relies on already existing data. It includes three different secondary data forecasting methods that can be used:

(1) **Offering-specific Forecasting:** This is based on past data from the sales of the same offering for which the demand is being forecast. One popular approach where the past sales data identifies the trends and then generalizes these trends to a sales forecast. A variety of time-series statistical approaches might be employed for this type of analysis, such as linear trend analysis, moving-average analysis, and exponential smoothing.

Another popular approach involves identifying the relationships between the offering's sales and a variety of internal factors such as the offering's price, incentives, and communication and external factors such as competitors'

price, incentives, and communication to predict the likely sales volume.

(2) Forecasting by Analogy: It involves forecasting an offering's performance by comparing its adoption cycle to a functionally similar product for which sales data are available. This approach is especially useful for new products for which adoption data are not available, or for non-traditional marketing activities involving existing products including price change, incentives etc. For example, one could forecast the adoption of 3-D TVs by comparing it to the adoption of analogous products, such as colour, flat-screen, and high-definition TVs.

The key assumption of analogy-based forecasts is that the pattern of adoption of the new product speed and depth of market penetration will follow a similar pattern to that of the analogous product.

(3) Category-based Forecasting: It involves utilizing available product category data to estimate a particular product's performance. One category-based forecasting approach to quantifying sales potential involves estimating the degree to which sales in a given category have captured the total market potential in a particular geographical area based on the population of that area and average consumption per user nationally, which is also referred to as the Category Development Index, or CDI.

An alternative approach to category-based demand forecasting involves estimating the degree to which sales of a specific offering rather than the entire category have captured the total market potential in a particular market which is also referred to as the Brand Development Index, or BDI.

Comparing these two indexes reveals an offering's performance relative to the category. Thus, a combination of high BDI and low CDI indicates that the brand is doing better than competitive offerings, whereas a combination of low BDI and high CDI indicates that the brand is doing worse than competitive offerings.

NEW PRODUCT ADOPTION

Adoption is the process by which people become users of a product. It is adoption which will enable users to discover that a product is usable and useful and enable them to become long-term users of a product. The new product adoption process is an individual process in which a consumer decides to adopt a new product for his or her personal use. This process is referred as diffusion of innovation, which is like a S shaped curve that depicts total number of adoptions at any given point of time.

UNDERSTANDING NEW PRODUCT ADOPTION:

The concept of product adoption is concerned with developing new product, which includes:

(a) **Innovation:** Innovations implies Research and Development activities.

(b) **Modification:** It involves quality modifications, functional modifications, style modifications etc.

Product adoption is concerned with how customers learn about the new product for the first time and make decision to become its regular users. It is the mental process through which an individual passes form first learning about an innovation (new product) to its final adoption.

Philip Kotler considers five steps in consumer adoption process, such as awareness, interest, evaluation, trial, and adoption. On the other hand, William Stanton suggested that

there are six steps, namely - awareness stage, interest and information stage, evaluation stage, trial stage, adoption stage, and post-adoption stage. The stages are explained as follows:

(1) **Awareness:** Awareness is the point at which consumers first become aware of the new product's existence but lacks enough information. Awareness is a function of, and is highly dependent on, marketing communication and consumer word-of-mouth.

(2) **Interest and Information Stage:** In this stage, the consumer becomes interested in innovation and tries to collect more information about the product offering from various sources. The sources include advertising media, salesmen, retailers, dealers, current users, or directly from company. The information is sought about the offering's qualities, features, functions, brand, colour, shape, price, incentives and other relevant aspects.

(3) **Evaluation:** In this stage, the consumer has enough knowledge about the product and he considers its relative benefits and evaluates it in terms of various factors as cost, aesthetics, competitors' offering, features, performance, price, after-sales services, etc. This helps him arrive at the decision whether the innovation should be tried out or no.

(4) **Trial:** If the evaluation is favourable, consumers are more likely to take the next step, trial. They may try out the innovation in a small scale to get self-experience. Trial can be stimulated by marketing activities such as free samples and coupons, that are quite effective particularly in case of convenience goods. Some products actually can be 'test driven' prior to purchase, like cars.

(5) **Adoption or Rejection Decision:** This is the stage when the consumer has made up his/her mind whether to remain with

the product or switch back to the earlier product. If trial produces satisfactory results, the consumer decides to adopt/buy the innovation and consume individually or jointly with other members.

(6) **Post Adoption Stage:** This is the last stage of consumer adoption. If a consumer is satisfied with a new product and related services, he continues buying it frequently, and vice-versa. He becomes a regular user of innovation and may also talk favourable to others.

In every stage of consumer adoption, marketers play a significant role to facilitate consumers. They take all possible actions to make them try, buy, and repeat buy the innovation.

DIFFUSION OF NEW OFFERING:

Diffusion of innovation as a process is not generic; it varies from product to product and or service to service. Some product or service offerings gain quick acceptance, and the diffusion is fast and rapid; for other products and services, the process may be slow and take considerable amount of time. For example, the colour TVs in India took a long time to get diffused, but for satellite TV, the rate of diffusion was very fast. Also, the pagers took a long time to get diffused into Indian homes, but cell phone got readily accepted by all and diffusion was very fast. Thus, all products or services that are "new", do not possess the same ease and potential for consumer acceptance.

Diffusion of innovation and subsequent adoption is impacted by socio-economic, cultural, technological as well as legal factors; it is also impacted by individual determinants like psychological variables and demographics; these are all forces, in most cases, "uncontrollable" by the marketer.

FACTORS INFLUENCING DIFFUSION OF NEW OFFERINGS:

The factors that influence diffusion of new offerings are explained as follows:

(1) **Relative Advantage:** The greater the relative advantage of an offering over the product it replaces, the more likely it is to be adopted. A product/service that provides advantage over other existing products is indicative of being superior to existing alternatives, and thus higher in terms of "value". The relative advantage may be in terms of it being a modified product with better features, benefits, form etc., or at a lower price better deals, discounts, terms of payment, warranty and exchange, or more accessible in terms of availability physical store format, or virtual electronic format, or better communication. Examples of innovations that provide relative advantage are, flash drives versus compact discs, laptops versus computers, or digital libraries versus traditional libraries, ATMs versus bank teller counters.

(2) **Transparency:** An offering is more likely to be adopted when its relative benefits are readily observable and can be experienced by customers. Transparency of the products' features, price, functions and benefits helps customers to take proper selection decision. It also helps the product to stand in competition with its substitute products and maintain loyalty of customers.

(3) **Compatibility:** An offering compatible with customers' existing systems and processes is more likely to be adopted than an incompatible one. The compatibility of the innovative product and service offering with the existing backgrounds, behaviour and lifestyle patterns of consumers also affects its adoption. The compatibility of a product/service measures

how closely it relates to needs, value systems and norms, lifestyles, culture etc. The higher the level of compatibility, the quicker the diffusion and vice – versa. For example, fast food in the form of pizzas, burgers, noodles etc. took considerable amount of time to get diffused into the Indian society, as it contrasted with the dal roti meal concept.

(4) **Perceived Risk:** An offering is more likely to be adopted when the perceived risk associated with the new product is low. This might involve customers' uncertainty about their own preferences, about the product's performance, and about the magnitude of the risks associated with the new product. In addition to being a function of the offering's inherent benefits, the likelihood that customers will adopt a new offering is a function of a company's promotional and distribution activities. Thus, the greater the promotional activity such as advertising, incentives associated with a new offering and the greater the availability of the offering across distribution channels, the more likely it is to be adopted by customers.

(5) **Complexity:** The level of complexity in a product purchase and usage also affects the diffusion process. An innovative offering would be easily diffused when there is ease of understanding, purchase and use. The easier it is to understand and use a product, the more likely it is to be accepted quickly, and vice versa. Technological complexity may act as a barrier to diffusion. Consumers may resist adoption of new products because of fear of complexity in purchase and usage. Example: microwave ovens, vacuum cleaners etc.

(6) **Trialability:** The ease with which the product or service can be tested and tried also determines the rate of acceptance. The higher the degree of trialability, the greater would be the rate

of diffusion. This is because the prospects get an opportunity to try the product/service, assess it and decide to accept/reject it. Trialability can be encouraged by providing free samples, or providing smaller packs or even through demos and testers for consumer durables.

(7) **Observability:** Observability refers to the ease with which the product can be observed. Observability in an innovative product refers to the degree to which a product/service's benefits can be observed, imagined and perceived by a potential consumer. The new product offerings that are (i) tangible, (ii) have social visibility, and (iii) whose benefits are readily observed without much time gap, are more readily diffused than those that are intangible, or have no social visibility or whose benefits accumulate over long periods of time.

(8) **Inherent Value of the Offering:** The greater the inherent value of the new offering, the more likely it is to be adopted. Today, consumers want services, quality, brand and if the offerings are providing this, diffusion will take place. For example, the parcel services from restaurants were done through placing order on phone which is now replaced through online services like Swiggy, Zomato, Uber Eats etc.

The above mentioned factors have an impact on the rate of diffusion. While all these factors relate to the product, they are dependent on consumer perception.

NEW PRODUCT DEVELOPMENT PROCESS:

New product development (NPD) is the process of launching a new product in the market place. New products have to be introduced from time to time due to changes in consumer preferences, increasing competition and advances in technology or to capitalise on a new opportunity.

One of the main challenges with developing new products is streamlining the innovation process in a way that facilitates market success. The following are the steps to be followed in new product development process:

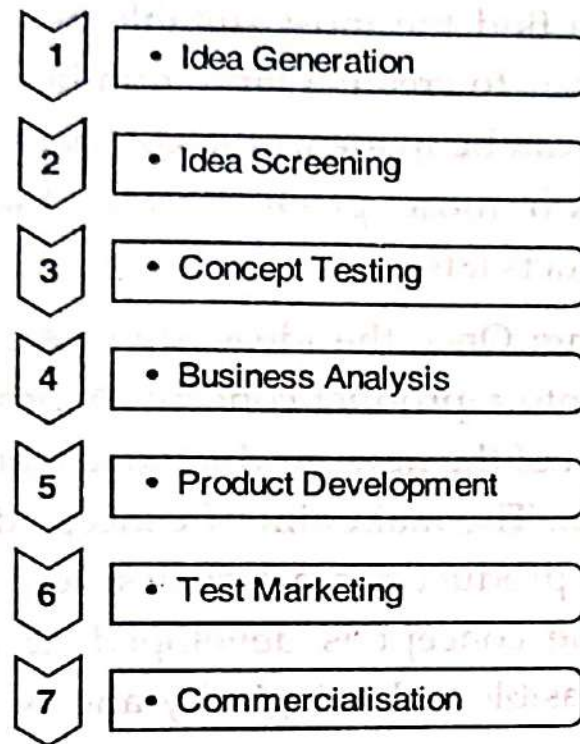

Fig. 3.1: New Product Development Process

(1) Idea Generation: The first step in the new product development process is idea generation that means systematic search for new product ideas. A company generates hundreds of ideas, to find a handful of good ones in the end. Two primary sources of new ideas are:

(a) Internal Idea Sources: The company finds new ideas internally by R&D and also suggestions/ recommendations from the employees.

(b) External Idea Sources: The company finds new ideas externally through sources such as distributors, dealers, suppliers, competitors etc. The most important external source is the customers, because new product

development process should focus on creating customer value.

(2) Idea Screening: The second step in the new product development process is idea screening. Idea screening means sorting the ideas to select the good ones. All ideas generated are screened to find the most suitable ones. The purpose of idea generation is to create a large number of ideas so that a rational choice can be made as the company would like to go ahead only with those product ideas that will turn into profitable products later.

(3) Concept Testing: Once the ideas are screened, they need to be developed into a product concept. A product concept is a detailed version of the new-product idea stated in meaningful consumer terms. The main aim of concept development is to give details of product characteristics, technology used and offers. Once the concept is developed, it is then tested to check if it is feasible technologically and will be accepted by the target consumers.

(4) Business Analysis: Once decided upon a product concept, the management can evaluate the business attractiveness of the proposed new product. This step involves a review of the sales, costs and profit projections for the new product to find out whether these factors satisfy the company's objectives. This can be done by looking at the sales history of similar products and conducting market surveys.

(5) Product Development: The new product development process goes on with the actual product development. After the product concept passes the business test, it must be developed into a physical product to ensure that the product idea can be turned into a workable market offering. At this stage, there is huge investment because of the high R&D and

engineering costs. Products often undergo tests to make sure they perform safely and effectively as per the market demand.

(6) **Test Marketing:** In this stage, the product and its proposed marketing programme are tested in realistic market settings. Therefore, test marketing gives the marketer experience with marketing the product on a small scale before its full introduction. It also provides opportunity to test the entire marketing programme, including targeting and positioning strategy, advertising, packaging etc. before the full investment is made.

(7) **Commercialisation:** Test marketing helps the management make the final decision whether to launch or not the new product. Commercialisation means introducing a new product into the market. While doing so, large amounts may be spent on advertising, sales promotion and other marketing efforts in the initial years.

In all of these steps of the new product development process, the most important focus is on creating superior customer value. Only then, the product can become a success in the market.

MANAGING RISK IN NEW PRODUCT DEVELOPMENT:

Managing the uncertainty of success associated with launching new offerings is one of the main challenges in new product development. This is because uncertainty increases the risk of failure and minimizing risk is one of the key aspects of new product development. Managing risk involves minimizing the chance that the new offering will fail e.g., during unfavourable market conditions.

The risk involved in new product development can be classified into one of two categories:

(1) **Market Risk,**

(2) **Technology Risk.**

Market Risk reflects the uncertainty associated with the factors i.e. the five Cs defining the market – Customer, Competitors, Company, Collaborator and Context.

The *customer* needs that the new product aims to fulfil might be temporary or might exist only for a customer segment that is not large enough to justify the development, production, promotion, and distribution costs.

The company's *collaborators* i.e. the suppliers, distributors etc. might not allocate the necessary support to ensure the success of the offering.

The *company* might end up without sufficient resources to develop and launch the offering due to factors such as cost overruns, inadequate manufacturing infrastructure, and the loss of key personnel.

Competitors might gain advantage by being first to market, or they might gain second mover advantage by imitating the company's technology to design a cheaper product or by building on the company's technology to develop a functionally superior offering.

Finally, the success of a new offering can be influenced by changes in the market *context,* such as the development of superior technologies, fluctuating sociocultural trends, new regulatory restrictions on product specifications and the product development process, as well as new import/export tariffs, taxes, and fees.

Technological Risk reflects the uncertainty associated with the technological viability of the new offering. For example, the desired product features might not be achievable with currently available technologies, product design might not be compatible with the functional requirements, and product reliability might be compromised by the use of new, unproven technologies.

Technological risk might also extend the timeframe for developing the new offering, which in turn, can increase the market risk associated with changes in the market environment during a longer period of time. To manage the risk associated with a new product launch, manager must understand the hurdles set by each stage in development of product. The more difficult the hurdle, the greater the likelihood that the offering will succeed. At the same time, setting stringent hurdles can make the company overlook a potentially viable new product, thus giving its competitors the opportunity to gain advantage by being the first to bring the product to market. Therefore, setting the "right" hurdles at each stage of product development is essential for growing the company's new product pipeline while minimizing the risk of new product failure.

MOORE'S MODEL OF ADOPTION OF NEW TECHNOLOGIES:

A popular application of Rogers' Diffusion Theory to technology products is Moore's "chasm" model. Moore's model identifies five distinct categories of customers based on their attitudes toward technology, which correspond to Rogers' five categories:

(1) **Technology Enthusiasts (Innovators)** are fundamentally committed to new technology and derive utility from being the first to experience new technologies.

(2) **Visionaries (Early Adopters)** are among the first to apply new technologies to solve problems and exploit opportunities in the marketplace.

(3) **Pragmatists (Early Majority)** view technology innovation as a productivity tool. Unlike enthusiasts, they do not appreciate technology for its own sake. Unlike visionaries, they do not use technology innovations to change existing business models but rather to optimize the efficiency and effectiveness of existing business models.

(4) **Conservatives (Late Majority)** are generally pessimistic about their ability to significantly benefit from new technological innovations and are reluctant to adopt them.

(5) **Skeptics (Laggards)** are critics of any innovative technology and are not likely to adopt such technologies even when they offer distinct benefits.

Unlike Rogers' model, which implies smooth and continuous progression across segments during the life of an offering, Moore's model assumes that the adoption of technology-based innovations follows a discontinuous pattern. This discontinuity in the adoption process is attributed to the fact that different groups of adopters have different adoption patterns and, therefore, require different marketing strategies. Thus, once a technology has reached its market potential within a given segment, it might not naturally roll over to the next segment.

To illustrate, even though an innovation has been adopted by technology enthusiasts, it might never be widely accepted by the visionaries. In this context, a company's biggest hurdle in promoting technology innovations is to bridge the gaps among different segments.

According to Moore, the key gap among segments - referred to as a "chasm"- is the one between the early market (enthusiasts

...visionaries) and the mainstream market (pragmatists, ...servatives, and skeptics). In this context, the chasm describes ...obstructions to mainstream commercialization of technology ...ovations that prevent pioneers from gaining mainstream ...eptance of their offerings. Thus, to be successful, an offering ...ds to "cross the chasm" between the early and the mainstream ...rket.

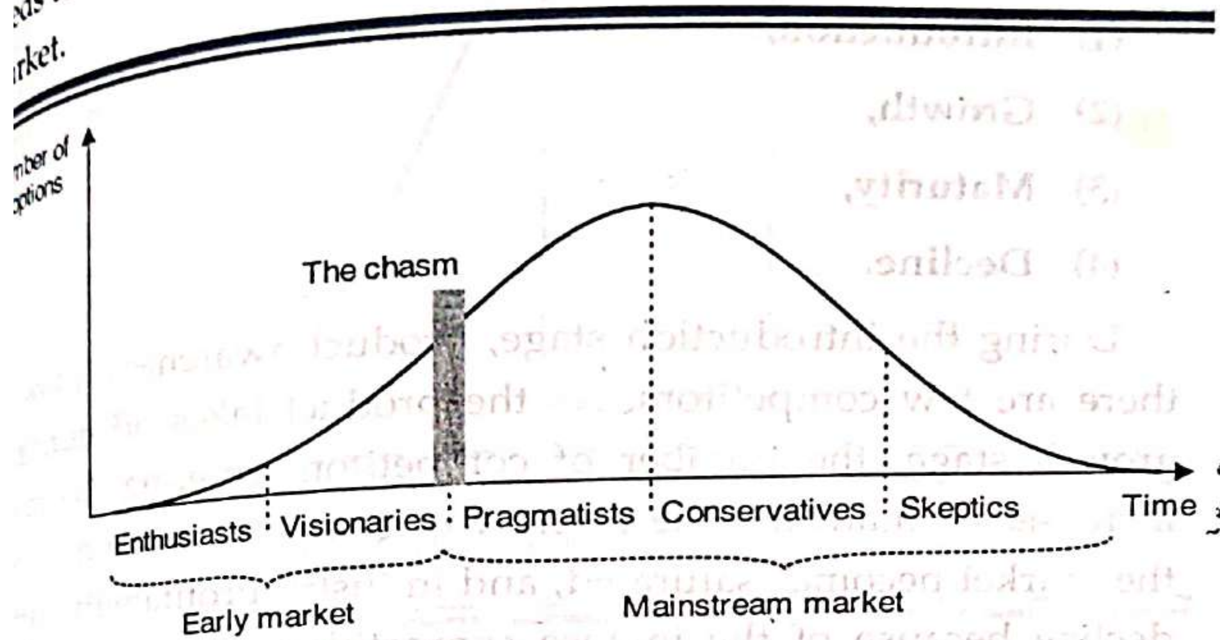

Fig. 3.2: Moores Model

(Source: Strategic Marketing Management by Alexander Chernev)

To avoid the difficulties of discontinuity of adoption of ...novations, Moore's model suggests promoting innovations first ... technology enthusiasts so that they help educate visionaries. ...isionaries, in turn, are likely to serve as a reference for ...ragmatists, one of the two largest market segments. Later, the ...ompany should be able to gain the know-how and achieve the ...conomies of scale necessary to make the product reliable and ...nexpensive, allowing it to meet the needs of conservatives. With ...espect to skeptics, referred to as the "gadflies of high tech," the ...dea is to let them be and not promote the innovation to them.

MANAGING THE PRODUCT LIFE CYCLE AT VARIOUS STAGES:

The concept of product life cycle (PLC) is based on the idea that products have a limited life in which they pass through distinct stages.

There are four key product life cycle stages:

(1) Introduction,

(2) Growth,

(3) Maturity,

(4) Decline.

During the introduction stage, product awareness is low and there are few competitors. As the product takes off during the growth stage, the number of competitors entering the market increase. At maturity, the number of competitors are maximum, the market becomes saturated, and industry profitability starts to decline because of the intense competition. Finally, the decline stage is characterized by falling demand for the product, relatively low profitability, and a decreasing number of competitors arising from consolidation and exit from the market.

The four stages of the product life cycle and the corresponding market conditions at each stage are illustrated as follows:

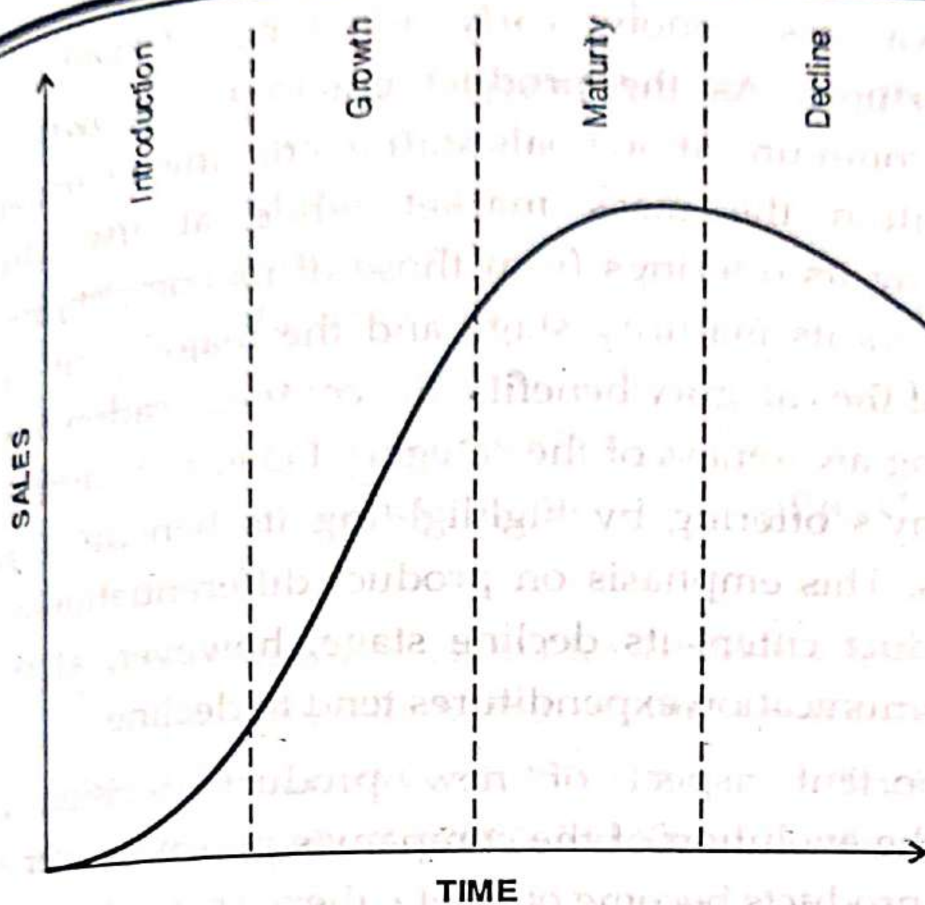

Fig. 3.3: Product Life Cycle

Product strategies vary across an offering's life cycle. At the introduction stage, companies usually offer a single product variant targeted to the most likely adopters. As the product enters the growth stage, the number of customers adopting the product increases, and so does the heterogeneity of these customers. To address the diverse needs of current and potential customers, companies add product extensions designed to better meet the needs of various customer subsegments. The number of product variants are maximum at maturity and starts decreasing as the product enters its decline stage; profit margins reduce, and companies focus on bestselling products, phasing out products with insufficient volume to meet their profitability benchmarks.

In the same way, the stage of an offering's life cycle can influence its communication. Thus, in the early stages of product introduction, the communication campaign aims primarily at

creating awareness among early adopters, as well as among channel partners. As the product enters the growth stage, a company's communication goals shift to creating awareness of the product within the mass market while at the same time differentiating its offerings from those of its competitors. As the product enters its maturity stage and the majority of customers are aware of the category benefits, the communication focus shifts from creating awareness of the category benefits to differentiating the company's offering by highlighting its benefits against the competitors. This emphasis on product differentiation continues as the product enters its decline stage; however, at this point overall communication expenditures tend to decline.

An important aspect of new product decision involves managing the evolution of the company's products over a period of time. As products become obsolete, they are often replaced by a new generation of products that take advantage of changes taking place in target markets, such as changes in customer preferences, alterations in the competitive offerings, advances in technology, and changes in the regulatory environment. Innovation enables companies to extend the life cycle of their individual products.

When developing a new generation of products, companies often develop strategies to make the earlier generation obsolete, a process often referred to as 'planned obsolescence'. Planned obsolescence involves designing new products in a way that makes prior generations inferior or even obsolete on key dimensions such as functionality, compatibility, and style. For example, companies launch higher models of cars to eliminate the earlier models. Another important implication of planned obsolescence for new product design involves managing a new product's costs by optimizing its performance during its expected lifetime, a process often referred to as 'value engineering'. For example, a company expecting its product to be obsolete within a

2 years might optimize costs by designing the durability of a product's components according to the expected product lifetime.

MANAGING PRODUCT LINES

Product line refers to a set of related offerings that function in a similar manner, are sold to the same target customers, and/or are distributed through the same channels. Product-line management aims to optimize the value delivered by the individual offerings that are contained in a company's product line.

MANAGING VERTICAL PRODUCT-LINE EXTENSIONS:

Vertical product-line extensions involve adding new offerings in different price tiers, such that some of the newly added offerings deliver higher level of benefits at higher price whereas others deliver lower level of benefits at lower price.

UPSCALE PRODUCT-LINE EXTENSIONS:

Upscale extensions involve extending the company's product line by adding an offering that delivers higher level of benefits at higher price. One of the main reasons for introducing an upscale extension is that it enables the company to capture a more lucrative, higher margin market. For example, to gain a foothold in the growing market for professional tools, leading home improvement company Black & Decker introduced DeWalt a line of professional, high-end power tools.

Upscale extensions are often used to follow customers through different stages of their life cycle by creating offerings that fit their evolving needs and changing buying power. For example, building on the success of its low-priced cars, Volkswagen introduced the more upscale Jetta and Passat for customers who seek larger, better performing vehicles.

In addition to providing access to higher end markets, upsc extensions can provide synergies with existing offerings, li adding an upscale offering can lift the image of the lower e offerings in the company's product line. Thus, by introducing line of premium, award-winning Gallo-branded wines, E. & Gallo Winery helped strengthen the image of its lower e offerings.

Companies also introduce upscale extensions to gain competitive advantage in developing advanced technologies. F example, car manufacturers often develop high performan versions of their vehicles to strengthen their core competenci and further the advancement of technologies that can be used their mass-produced lower end models.

CHALLENGES OF UPSCALE EXTENSION:

Despite their multiple advantages, upscale extensions fa challenges:

- Developing upscale offerings usually require specif resources that a company specialized in lower tier offering might not readily possess. The lack of such resources migl prevent a company from developing an offering that ca successfully compete in the upscale market. For exampl launching an upscale apparel brand requires a variety o specific resources, such as knowledge of fashion trends product development know-how, high-end manufacturing capabilities, a reputable brand, and access to specialized suppliers and upscale distribution channels that a lower end manufacturer might not have.
- Because most companies do not readily have the resources necessary to introduce higher quality offerings, "organic" upscale extensions (internally developed by the company) usually take time to implement and are not very common.

Instead, companies often gain access to upscale markets by acquiring existing high-end offerings. This acquisition strategy is illustrated by Fiat's entry into the racing car market with the acquisition of Ferrari and Gap's purchase of Banana Republic.

DOWNSCALE PRODUCT-LINE EXTENSIONS:

Downscale extensions involve extending the company's product line by adding an offering that delivers lower level of benefits at lower price. Downscale extensions are driven by a company's desire to increase its customer base by attracting less affluent customers who are currently not served by its offerings. Examples of downscale extensions include Armani's launch of Armani Exchange, Mercedes' introduction of the A-class, and Gap's introduction of Old Navy stores.

The main appeal of downscale extensions is the high volume of sales resulting from serving customers in lower socioeconomic tiers. Downscale extensions also enable companies to gain access to customers early in their life cycle by providing a lower entry point for a company's offerings. For example, Audi and BMW's "1" series cars provide access to younger customers, who despite current constrained resources are likely to evolve into a lucrative customer segment in the future.

Downscale extensions are especially beneficial to companies operating in industries requiring high fixed-cost investments - such as the airline, hotel, and automotive industries in which economies of scale might be achieved. For example, many upscale car manufacturers including Mercedes, BMW, and Porsche have opted to use their design and manufacturing resources to develop downscale product offerings. Downscale extensions are quite popular among managers seeking to achieve quick results because they build on the company's existing resources and are often easier to implement than upscale extensions.

DRAWBACKS OF DOWNSCALE EXTENSIONS:

Despite their numerous advantages, downscale extensions have a number of significant drawbacks.

- A key concern is the threat of cannibalization of higher end offerings by the downscale extension. In cases when the extension carries the same brand as the upscale offering, the downscale offering can also weaken the brand by creating undesirable associations with a low-quality/low-priced offering.
- Another concern is that downscale extensions yield lower margins compared to higher end offerings and, as a result, they need to generate substantial sales volume to be profitable.
- Furthermore, serving price-conscious customers can be challenging because these customers tend to be less loyal than performance-focused customers.

MANAGING HORIZONTAL PRODUCT-LINE EXTENSIONS:

Offerings in a horizontally differentiated product line generally belong to the same price tier and differ primarily in the type of benefits they offer. Unlike vertical extensions, in which the different levels of offering benefits can be clearly ordered in terms of their attractiveness, horizontal extensions do not imply such universal preference ordering. Instead, horizontal extensions are differentiated on benefits that are distinct and are likely to vary in their attractiveness across customers. For example, different designs, styles, colours, and flavours are likely to appeal to different tastes without necessarily implying differential pricing. Thus, even though prices might vary across horizontally differentiated offerings, they are not the key differentiating factor.

Horizontal extensions create value by providing customers with offerings that better match their preferences. Unlike vertical extensions, which provide a better preference match at different price-quality tiers, horizontal extensions aim to accommodate customers' tastes within a given price–quality tier. By providing an assortment of diverse options, horizontal extensions help companies fulfil the needs of customers with different tastes while at the same time satisfying the variety seeking behaviour of these customers. For example, Colgate-Palmolive, Procter & Gamble, and Unilever have introduced more than 100 varieties of toothpaste to appeal to consumers' diverse tastes while providing individual customers with a greater variety of options to choose from.

Horizontal extensions are often easier to implement than vertical extensions because they draw on a company's existing resources. Moreover, because they are sold at similar price points and have a similar cost structure, horizontal extensions have profit margins comparable to those of the existing offerings, thus eliminating any cannibalization concerns a key advantage over downscale extensions.

LIMITATIONS OF HORIZONTAL EXTENSIONS:

Despite their multiple advantages, horizontal extensions have several important drawbacks:

- A primary concern is the cost efficiency of offering horizontal extensions. Because it is difficult to identify customers who share a particular taste, companies need to make their entire product line available to consumers so that they can self-select the options that fit their taste. The problem with this approach is that making the entire product line available to all customers can be resource intensive and ultimately cost inefficient.

- In addition to increasing the company's costs, extensive assortments of similar options can lead to customer confusion and choice deferral, especially in cases when customers are unable to readily ascertain which of the available options best matches their preferences.

MANAGING PRODUCT-LINE CANNIBALIZATION:

When extending its product line, a company expects that the new offerings will generate additional sales by stealing share from the competition or bringing new users into the category. Ideally, all the sales generated by the new offering will come from competitors' offerings or from growing the overall category. In reality, however, this is rarely the case. A common side effect of launching a new offering is that in addition to stealing share from competitors it takes away share from a company's current offerings, a process commonly referred to as 'cannibalization'.

Cannibalization is a situation in which the sales of one of the company's offerings come at the expense of the sales of another offering. The presence of cannibalization is not always indicative of a problem in the company's strategy and, accordingly, is not always a cause for concern. In fact, on certain occasions a company might actively seek to cannibalize the sales of some of its offerings. For example, a market leader launching a "new and improved" version of its flagship product has no choice but to cannibalize its current flagship offering. This was the case with the introduction of the five-bladed Gillette Fusion, which inevitably cannibalized the sales of the three-bladed Gillette Mach3.

Cannibalization is a primary concern in the case of downscale product-line extensions because they typically have lower profit margins than the offerings they are likely to cannibalize. To minimize the possibility of cannibalization, a company needs to

ensure that its downscale extension is substantially differentiated from the existing offerings. This means that differentiation on price must also involve differentiation on benefits, such that lower price is associated with a lower level of benefits. When the new offering provides the same benefits as the incumbent offering but at a lower price, customers have no reason to prefer the higher priced offering and will ultimately move toward the lower priced extension. Meaningful differentiation is key to avoid dealing with cannibalization.

When differentiating its downscale extension, a company walks a fine line between curbing potential cannibalization by ensuring that the downscale extension is not more attractive than the incumbent offering and building the market for the downscale extension by bolstering its appeal, sometimes to the detriment of the incumbent offering. In its desire to minimize cannibalization, a company can stretch its downscale extension so far that it becomes inferior to those of its direct competitors. For example, in an effort to avoid cannibalization, Intel overstretched its downscale extension, Celeron, making it inferior to its low-priced competitors AMD and Cyrix.

Over-differentiation can also result from overpricing the lower end offering. For example, Gap Warehouse, the forerunner of Old Navy, failed because in an effort to avoid cannibalizing sales in Gap's core stores it set relatively high prices, which put it at a disadvantage relative to its direct competitors.

In general, cannibalization is of primary concern when the margins of the new offering are lower than those of the offering being cannibalized, whereby every time a customer buys the new, lower margin offering instead of the higher margin one, the company generates lower profits.

The maximum amount of cannibalization of an existing offering by a new one is given by a metric commonly referred to

as the break-even rate of cannibalization. The break-even rate of cannibalization indicates the maximum proportion of the new offering's sales volume that could come from the existing offering(s) without the company incurring a loss. Cannibalization by lower margin offerings as in the case of poorly differentiated vertical extensions is not the only way that profitability can be eroded through cannibalization; poorly differentiated horizontal extensions can result in cannibalization as well. Even when offerings in horizontal product-line extensions are priced at parity and have similar margins, in cases when increasing the number of offerings does not lead to a corresponding increase in sales volume, the overall profitability of the product line is likely to decrease because a larger number of company offerings is chasing the same number of customers. Thus, when the newly added offerings in a company's product line address the same need of the same target customer as the existing offerings, extending product lines ultimately leads to substitution rather stimulating new demand.

MANAGING PRODUCT LINES TO GAIN AND DEFEND MARKET POSITION:

Product line extension, in addition to creating value for target customers, can help companies gain and sustain market position. There are three most popular competitive product-line strategies:

(1) The Fighting-Brand Strategy,

(2) The Sandwich Strategy,

(3) The Good-Better-Best Strategy.

The Fighting-Brand Strategy:

This is a popular strategy to compete with low-priced rivals, that involves launching a fighting brand an offering that matches or undercuts the competitor 's price. For example, to compete with low-price rivals while preserving the market position,

Procter & Gamble launched Oxydol laundry detergent as a low-price alternative to its flagship brand Tide.

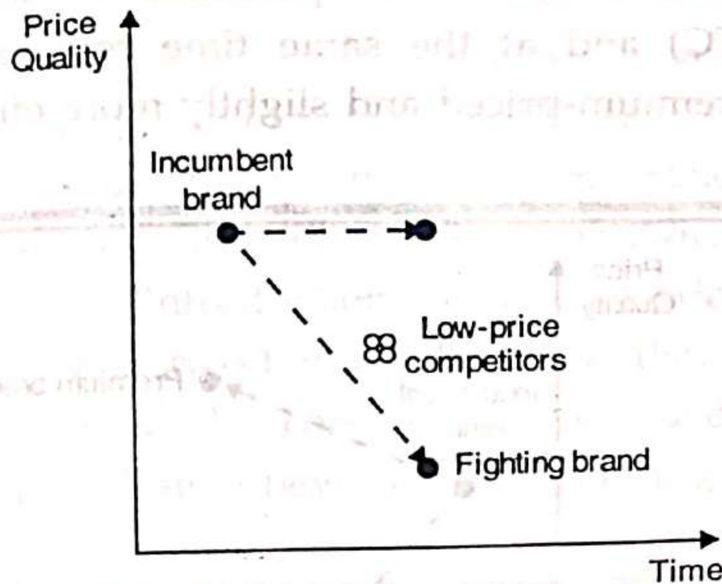

Fig. 3.4: The Fighting-Brand Strategy

Source:(https://www.google.com/search?q=fighting+brand+strategy&source=lnms&tbm=isch&sa=X&ved=0ahUKEwju2-usibziAhUW3Y8KHWswBnkQ_AUIDygC&biw=1707&bih=827#imgrc=3R7FQQtYCuwY6M)

The fighting-brand strategy assumes a two-tiered market in which some buyers are quality focused and others are willing to sacrifice quality for price. In this context, the fighting-brand strategy involves introducing a lower priced, lower quality offering to address the needs of the price-conscious buyers while leaving intact the value proposition of the original offering. By recognizing the heterogeneity of the underlying market, the fighting-brand strategy develops a new offering aimed at the price-sensitive customer segment.

The Sandwich Strategy:

The sandwich strategy involves introducing a two-tier product line comprising a high-quality offering and a low-priced offering, effectively sandwiching low-priced competitors. This strategy is typically achieved by launching a downscale extension while simultaneously moving the existing offering upscale. For example,

in anticipation of an inflow of cut-price competitors following the patent expiration of its blockbuster prescription drug Prilosec, AstraZeneca introduced a low-priced, over-the-counter version (Prilosec OTC) and at the same time replaced Prilosec with Nexium a premium-priced and slightly more effective version of the drug.

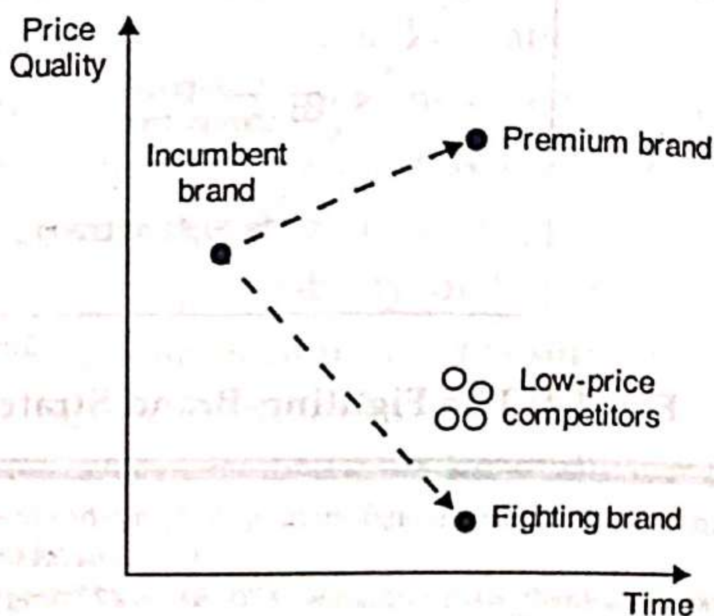

Fig. 3.5: Sandwich Strategy

The sandwich strategy resembles the fighting-brand strategy because in both cases the incumbent brand introduces a low-priced offering. Despite their similarities, the sandwich strategy differs from the fighting-brand strategy in that in addition to introducing a downscale offering it also repositions the core offering by moving it upscale. The upscale repositioning of the incumbent offering in the sandwich strategy reflects the change in the target market following the introduction of low-price offerings by competitors. After the incumbent brand loses some of its price-sensitive customers to low-price rivals, the remaining customers are, on average, less price sensitive and more quality oriented. As a result, the incumbent brand is no longer optimally positioned to

meet the needs of its target customers and can benefit from moving upscale.

The Good-Better-Best Strategy:

The good-better-best strategy involves introducing a downscale offering (fighting brand) as well as an upscale offering (premium brand) while preserving the core brand. Thus, the good-better-best strategy is similar to the sandwich strategy in that it involves the introduction of a low-priced offering. However, instead of a two-tier product line that involves an upscale repositioning of the core brand, the good better best strategy calls for launching a new premium offering that yields a three tier product line.

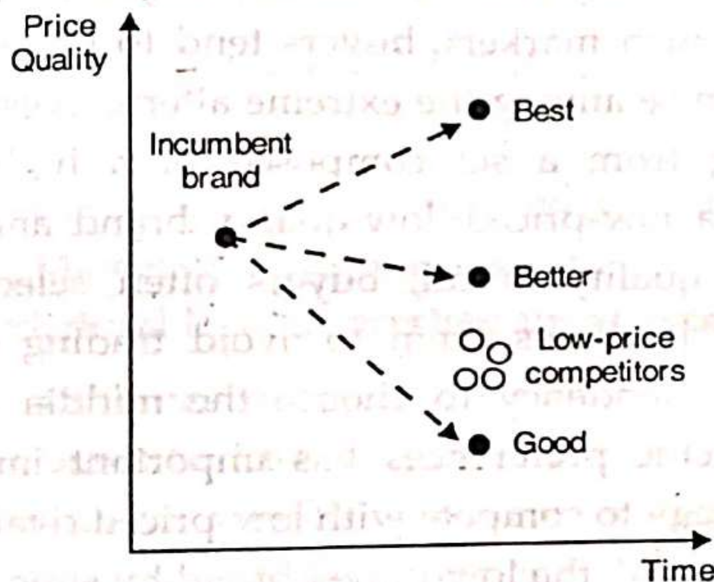

Fig. 3.6: Good-Better-Best Strategy

The good-better-best strategy can be illustrated with Apple's response to low priced competitors of its iPod music player. Instead of directly competing with lower priced offerings, Apple extended its product line downscale by first introducing the iPod Nano and then the iPod Shuffle. This strategy has also been successfully employed by a number of other companies such as

Microsoft (Works, Office Home Edition, and Office Professional), and Gap (Old Navy, Gap, and Banana Republic).

The good-better-best strategy works well in tiered markets comprising three key segments: a quality-focused segment, a price-focused segment, and a segment seeking a compromise between high quality and low price. In such three-tiered markets, the sandwich strategy would not work because moving the core offering upscale without having a mid-tier option leaves the company vulnerable to competitive offerings of mid-point quality and price.

In addition to being an effective tool to fence off cut-price competitors in three tiered markets, the good-better-best strategy can be used in markets in which buyers have uncertain preferences. In such markets, buyers tend to prefer options that offer a compromise among the extreme alternatives. For example, when choosing from a set composed of a high-priced/high-quality brand, a low-priced/low-quality brand and an average-priced/average-quality brand, buyers often select the middle option because it allows them to avoid trading off price and quality. Buyers' tendency to choose the middle option in the absence of specific preferences has important implications for choosing a strategy to compete with low-priced rivals. In this case, trying to "sandwich" the low-priced brand by simply launching a fighting brand and moving the core brand upscale without offering a mid-priced/mid-quality option might not be successful because the "sandwiched" competitor might benefit from becoming the compromise option.

BRAND TACTICS

BRAND:

A brand is a name, sign, symbol, logo, picture or a combination of all that give a unique identity to an offering. Brand name

creates loyalty, trust, faith, premiumness or mass market appeal depending on how the brand is marketed, advertised and promoted. People do not buy products but they buy brands. Successful organizations have the power of their brands as the cornerstone of their success.

DEFINITIONS:

(1) According to **American Marketing Association**, *"a brand is a name, a term, sign, symbol or a design or a combination of these, intended to identify the products or services of one seller or group of sellers and to differentiate them from competitors."*

(2) Brand can be defined as *"a product that provides functional benefits plus added values that some consumers value enough to buy"* (Jones 1998).

Thus brand is a complex symbol that conveys six levels of meaning:

(1) **Attributes:** A brand brings to mind certain attributes. For instance, Mercedes suggests expensive, well-built, well-engineered, durable, high-prestige automobiles.

(2) **Benefits:** Attributes must be translated into functional and emotional benefits. The attribute "durable" could translate into the functional benefit "won't have to buy another car for several years". The attribute "expensive" translates into the emotional benefit. "The car makes me feel important and admired."

(3) **Values:** The brand also says something about the producer's values. Mercedes stands for high performance, safety, and prestige.

(4) **Culture:** The brand may represent a certain culture. The Mercedes represents German culture - organized, efficient, high quality.

(5) **Personality:** The brand can project a certain personality. Mercedes may suggest a no-nonsense boss (person) or a reigning lion (animal).

(6) **User:** The brand suggests the kind of consumer who buys or uses the product. One would expect to see a 55-year-old top executive behind the wheel of a Mercedes, not a 20-year-old secretary.

Thus a brand name helps an organization differentiate itself from its competitors. In today's competitive world customers expect products to have branding. Customers often build up a relationship with a brand that they trust and will regularly purchase products from that brand. Some people will only purchase a particular brand even though there are acceptable alternatives on the market.

BRAND IDENTITY:

Brand Identity is the message the consumer receives from the product, person, or thing. It includes the identifying characteristics of the brand, such as brand name, logo, symbol, character, slogan, jingle, product design, and packaging. Brand identity elements should be unique, memorable, likeable, and consistent with the other brand elements and with the meaning of the brand.

Brand elements should also be flexible to adapt to changes in the market environment to accommodate shifts in consumer preferences and the company's product-line strategy to be extendable to other product categories. The company should be able to protect the uniqueness of its brand elements against violation by competitors. Brand identity should be a consistent message received by its audience.

BRAND AS A VALUE CREATION PROCESS:

Brands aim to create value that goes beyond the functional benefits of the offering. To achieve this goal, a manager must consider five key factors such as target customers, the company, its collaborators, competitors, and the context in which the company operates and develop a brand that creates market value. The Five Cs are the key decision factors that must be considered in order to design brands that can create value for target customers, the company, and its collaborators.

The 5 Cs that create market value for a brand can be elaborated as follows:

(a) **Customers:** Creating value for its target customers is a primary function of any brand. Customer needs are of prime importance for building successful brands.

(b) **Company:** An offering's brand is also influenced by the company's resources, such that a company with an established reputation and expertise in a particular sector can use this reputation to build its brand.

(c) **Collaborators:** An offering's brand influenced by its collaborators will result to the development of co-branding strategies e.g., Microsoft and Intel, McDonalds and Coke, Citibank and MasterCard.

(d) **Competition:** Competition affects the brand's ability to create unique and shared associations which is often referred to as points of difference and points of parity.

(e) **Context:** Brand is influenced by the various factors such as economic, business, technological, socio-cultural, regulatory, and physical aspects of the environment in which it operates.

Apart from these there are some Marketing Mix factors that influence Branding Decisions as follows:

(a) **Product and Service characteristics:** The importance of brands in differentiating the offering will be greater if the companies product and services are more commoditised and less observable in its benefits.

(b) **Price and Incentives:** An offering's brand must be consistent with its price and incentives. Low prices and frequent discounts can impact the image of an upscale brand, just as high prices can impact the image of a value brand..

(c) **Communication:** Brand-focused communications tend to strengthen the brand, whereas price and incentive-focused communications have the opposite effect, weakening the brand image

(d) **Distribution:** an offering's brand is a function of its distribution channels, which often serve as a means for brand building

(e) **Example:** Disney World theme parks and Apple retail stores function as channels delivering Disney, and Nike brands.

BRAND HIERARCHY:

Brand Hierarchy also called as brand architecture reflects the relationship among different brands in a company's portfolio An important branding decision involves determining whether different offerings in a company's product line should be positioned as individual brands or should share the same brand name. There are two core approaches to managing multiple brands:

(1) **Individual Branding,**

(2) **Umbrella Branding.**

INDIVIDUAL BRANDING:

In individual branding each product offered to the market is given a brand name that is not connected to the existing brands already offered by an organization. One company controls multiple brands with unique names, identities, and images, that makes it possible to create marketing strategies. It helps in targeting different types of customers.

Example: Lux, Dove, Pears, Surf are individual brands under HUL.

Pampers, Tide, Head & Shoulders are individual brand under Procter and Gamble.

Mountain Dew, Aquafina, Lays are individual Brand names under PepsiCo.

Advantages of Individual Branding:

(1) **It reduces the influences of a corporate identity:** When individual branding is pursued for multiple products, then it allows a corporation to position its brands in several different ways. Every product is able to develop its own identity, brand message, and personality.

(2) **It allows each brand to develop its own marketing strategy:** Because each product is offering its own brand message, it can develop its own strategy to market itself to specific segments. There are no connections to a central brand or other products, which means a company can target a specific audience without influencing the impact of their other products in some way. Different images and messages can be used to reach specific consumers that may not be attracted to the other products or brands offered by a company.

(3) **It creates an opportunity to develop multiple product grades:** One of the biggest advantages of individual branding is the ability to create products of various quality levels

within the same company structure. Each brand is able to target a specific audience that is attracted to the value proposition being offered at every quality level. The lower quality products are not going to weaken the image of higher quality products, even though the same company sells both, because each relies on the reputation of its own brand to generate sales.

(4) **It allows a company to serve customers in different ways:** When individual branding is used, consumers can be served in different ways by each brand being offered. An example here is PepsiCo, which offers a number of food and beverage brands to consumers. Consumer who are focused on healthy eating decisions are served by the Naked, Sabra, or Quaker Oats brands. Consumers focused on snacking my look at the Ruffles, Lays, or Cheetos brands. Although these are all PepsiCo, consumers still get specific needs met despite having very different needs from one another.

(5) **It unties the reputation of a company with its products:** When individual branding is being practiced, then the failure of a single brand will not damage the local, national, or global reputation of the company.

(6) **It can build multiple levels of consumer loyalty:** The modern consumer builds relationships with the brands they enjoy the most. These relationships are seen as beneficial, which generates loyalty to the products being offered over time. When a consumer is attracted to multiple brands under the same company umbrella, it becomes possible to build multiple levels of loyalty with a single consumer. That creates the potential for long-term repetitive sales, which ultimately leads to a healthy, growing organization.

Limitations of Individual Branding:

(1) **It may cause the home company to become unstable:** When individual branding is being practiced, there will be one product which is more successful than all the rest. There will also be one brand that is not as successful as all the other ones. This can create instability within the company. Those involved with the successful brands may be viewed as having more power within the organization, even though all brands might be profitable. This can lead to employee conflict, market conflict, and consumer confusion.

(2) **It requires lot of time:** It takes a lot of time, efforts, money and resources to build brands as individual brand image has to be created for each brand. It requires lots of advertisement expenses and promotions to create a brand image.

(3) **It creates a risk for existing products:** When a company introduces a new brand into the marketplace, there is a good chance that they will negatively affect the market for any existing brands they have in that space. Although the goal may be to target specific demographics that are not attracted to an older product, the new product will still steal sales from the existing consumer base. That means the performance of a new brand may be overstated, while the impact to an older brand may be understated, as consumers simply shift from the old brand to the new one.

(4) **It requires more human capital:** If an organization is altering multiple brands under the same umbrella, then it will require more human resources. It will require more technical resources. There will be a higher demand level for internal and external funding sources. Although this may provide more jobs and support wage growth in an economy, it also requires a certain level of talent and skill which may not be available to every corporation.

The advantages and limitations of individual branding apply to all businesses. Large corporations tend to experience the most advantages as multiple brands work together to generate multiple revenue streams. Small businesses may not have the capital available to start multiple brands. Introducing any brand to a new marketplace entails risk. Having more brands creates more risk in this area. At the same time, each brand stands on its own, which allows a home company to maintain itself, even if product failure occurs.

UMBRELLA BRANDING:

Umbrella branding is a marketing practice which involves selling several related products under the name of a single brand. Umbrella Branding (umbrella brand) also known as family branding involves creating good brand equity for a single brand. Umbrella branding can be quite a challenging marketing practice for marketers as they will be required to coordinate effectively within every individual brand. However, when the marketing practice is implemented well, the results can generate great advantages.

The underlying idea behind this brand strategy is to enhance the marketability of products and it follows the psychological concept that whenever a product carries the same brand name, it will involve the same high-quality standards like other brands within the umbrella. So, brands can also have 5 different product lines, however, the trust in that particular brand carries the quality of all the 5 product lines.

Corporate umbrella branding is another similar type of branding strategy where the company utilizes its credibility in the event of developing a new product or service. This allows brand recognition to be attributed to several sub-brands. Consumers may not recognize these sub-brands, but however, they will

recognize corporate umbrella branding. Examples of this type of umbrella branding include Google, Virgin, and Starbucks.

Examples of umbrella branding include several and a concrete example is that of Apple Inc. Under this brand name, customers may find the iPad, iPhone, Apple Watch, Mac Air, Mac Book, etc. Apple was originally known for its Mac computers and hence it becomes the top product of the Apple umbrella. The umbrella, thus, further divides into iPhones, iPads and other products rendering the strategy to be an umbrella strategy.

Advantages of Umbrella Advertising:

(1) **Economical Strategy:** Umbrella branding is an economical strategy. Investing in a single brand is less costly than building number of brands. The brand distributes its investments over number of products.

(2) **Brand Awareness and Goodwill:** It becomes popular due to brand awareness of the new product and goodwill. New products gets all the advantages of the umbrella name.

(3) **Easy recognition:** Due to umbrella branding new products get easy recognition and do not have to struggle more to build brand reputation and convince the customers.

Limitations of Umbrella Branding:

(1) **Difficulty in Niche market:** Umbrella brand may not succeed in niche market where specialisation is required. Each market represents its own unique structure of needs and buyer preference. An umbrella brander will find it difficult to cater the unique needs as he is a generalist who can satisfy the general needs in the market place.

(2) **Failure of one product may affect another:** Many products are common Failure of one product may affect the others as it is under one brand.

(3) **Difficult to stretch vertically:** Companies following umbrella branding must be cautious as umbrella branding is difficult to be stretched vertically. Vertical extensions are likely to damage the core brand whereas horizontal extensions are less harmful.

BRAND DYNAMICS:

Brands evolve throughout time once they are created. There are two common types of brand changes:

(1) **Brand Repositioning,** which involves changes to the identity and meaning of a company's brand.

(2) **Brand Extensions,** which involve broadening the set of underlying offerings to which the brand is applied.

BRAND REPOSITIONING:

When a company sees a decrease in sales over time and/or major changes coming down the line, they know it is time to implement changes within the company. Brand repositioning is when a company changes a brand's status in the marketplace. Such changes include changes to the marketing mix, such as product, place, price and promotion. Repositioning involves changing an essential aspect of the brand, to increase its relevance to target customers.

REASONS TO REPOSITION A BRAND:

Repositioning is done to keep up with consumer needs and wants. The main reasons to reposition a brand are as follows:

(1) **To respond to a change in target customers:** One of the most common reasons for repositioning a brand is to ensure that it remains relevant to the changing needs of its target customers. Due to changes in the technology, preferences of customers are changing keeping in account quality, price, benefits, etc. Customers have become more brand conscious

and prefer to have knowledge about the product before taking decision to purchase.

(2) **To reach a new target market:** Companies often reposition their brands when entering new markets to allow the brand image to reflect the specifics of that market and better meet with the needs and values of target customers. Most of the time, established brands may not provide the features and benefits given by the new offerings hence they need to be made aware of the new offerings.

(3) **To counteract a change in a competitor's branding strategy:** Because companies strive to create superior customer value relative to that of other offerings in the marketplace, a change in the positioning of a competitor's offering often induces the company to reposition its brand to preserve and enhance its competitive advantage.

(4) **To respond to legal challenges:** Consumers are well educated about their rights in today's time and so unfair practices needs to be avoided. At the same time company needs to be fair and honest in dealing in order to avoid legal complications.

BRAND EXTENSION:

Brand Extension is the use of an established brand name in new product categories. This new category to which the brand is extended can be related or unrelated to the existing product categories. A renowned/successful brand helps an organization to launch products in new categories more easily. For instance, Nike's brand core product is shoes. But it is now extended to sunglasses, soccer balls, basketballs, and golf equipment.

An existing brand that gives rise to a brand extension is referred to as parent brand. If the customers of the new business have values and aspirations matching those of the core business,

and if these values and aspirations are embodied in the brand, it is likely to be accepted by customers in the new business.

Extending a brand outside its core product category can be beneficial in the sense that it helps evaluating product category opportunities, identifies resource requirements, lowers risk, and measures brand's relevance and appeal.

The primary reason for extending an existing brand is to leverage its equity by applying it to a new offering. The popularity of brand extensions shoot up from the fact that building new brands is a costly and time-consuming task. As a result, when entering a new product category, companies often choose to leverage the equity of their existing brands rather than invest in creating new ones.

It should be noted that brand extension may be successful or unsuccessful.

Instances where brand extension has been a success are:

(i) **Wipro** which was originally into computers has extended into shampoo, powder, and soap.

(ii) **Mars** is no longer a famous bar only, but an ice-cream, chocolate drink and a slab of chocolate.

Advantages of Brand Extension:

(1) Brand Extension makes **acceptance of new product easy:**

(a) It increases brand image.

(b) The risk perceived by the customers reduces.

(c) The likelihood of gaining distribution and trial increases. An established brand name increases consumer interest and willingness to try new product having the established brand name.

(d) The efficiency of promotional expenditure increases. Advertising, selling and promotional costs are reduced. There are economies of scale as advertising for core brand and its extension reinforces each other.

(e) Cost of developing new brand is saved.

(f) Consumers can now seek for a variety.

(g) There are packaging and labelling efficiencies.

(h) The expense of introductory and follow up marketing programs is reduced.

(2) There are feedback benefits to the parent brand and the organization.

(a) The image of parent brand is enhanced.

(b) It revives the brand.

(c) It allows subsequent extension.

(d) Brand meaning is clarified.

(e) It increases market coverage as it brings new customers into brand franchise.

(f) Customers associate original/core brand to new product, hence they also have quality associations.

Limitations of Brand Extension:

(1) Brand extension in unrelated markets may lead to loss of reliability if a brand name is extended too far. An organization must research the product categories in which the established brand name will work.

(2) There is a risk that the new product may generate implications that damage the image of the core/original brand.

(3) There are chances of less awareness and trial because the management may not provide enough investment for the

introduction of new product assuming that the spin-off effects from the original brand name will compensate.

(4) If the brand extensions have no advantage over competitive brands in the new category, then it will fail.

VERTICAL AND HORIZONTAL BRAND EXTENSION:

Based on their relationship with the core offering, brand extensions can be vertical or horizontal.

(1) **Vertical Brand Extensions:** In this case, brand is extended to a product or service in a different price category. Depending on the direction in which the original offering is being extended, two types of vertical brand extensions can be stated:

(i) Upscale Extension,

(ii) Downscale Extension.

Upscale Extension:

In upscale extension a high brand offering is introduced with the same brand name. These brands are usually not successful as brand is used to be recognised as a low priced brand and people don't accept it in a high end category. It is always advisable to launch a separate brand with new identity.

Examples of upscale brand extension: Toyota and Volkswagen to enter the luxury car market. Both companies decided to extend their product line to upscale offerings but chose different branding strategies. Believing that its existing brand name could not convey the luxury image required to successfully compete with the Mercedes S-class and BMW 7-series, Toyota launched a new brand Lexus rather than try to extend its existing brand. In contrast, Volkswagen launched its upscale extension branded as Volkswagen Phaeton,

prominently featuring the VW logo on the front and the back of the car. The result is that Toyota succeeded in establishing Lexus as a premiere luxury brand, whereas Volkswagen failed to convince potential buyers that it could be a luxury brand.

Downscale Extension:

In downward extension low price offering is introduced with same brand name. These are more successful as people are not reluctant in buying a known brand. Example: Ginger by TATA, Mercedes A series. The only drawback here is that the image gets weak in many cases.

2) **Horizontal Brand Extension:** Horizontal brand extension involve applying the same brand name to a different product category, within the same price range (Figure 3). For example, Ralph Lauren successfully extended its Polo brand from clothing to home furnishings such as bedding and towels, Porsche extended its brand from sport cars to sedans and sport utility vehicles. Reliance has extended from electronics to super market as reliance fresh to hospitals.

A major drawback of horizontal brand extensions is **brand dilution,** which is likely to occur when a brand is extended to diverse product categories that are inconsistent with its essence. For example, Heinz All Natural Cleaning Vinegar the company's first non-food product launched in 2003 failed, in part, because consumers were confused by the Heinz-branded vinegar based cleaning aid.

BRAND EQUITY AND BRAND POWER:

The term brand equity refers to the financial value of the brand; it determines the premium that should be placed on a company's valuation because of brand ownership. Brand equity describes the value of having a well-known brand name, based on

the idea that the owner of a well-known brand name can generate more money from products with that brand name than from products with a less well-known name, as consumers believe that a product with a well-known name is better than products with less well-known names.

A key driver of brand equity is the brand's power. Brand power reflects the brand's ability to differentiate the offering from the competition and create customer value through meaningful associations. Unlike brand equity, which reflects the value of the brand to the company, brand power reflects the value a brand creates in the minds of customers.

Brand equity is a function of brand power as well as the company's utilization of the power of its brand, reflected in its user base, sales volume, and pricing. A stronger brand does not automatically translate into greater brand equity.

Brand power can be defined as the differential impact of brand knowledge on consumer response to an offering's marketing efforts. This means that a brand has greater power when customers react more favourably to an offering because they are aware of the brand name. To illustrate, one of the benefits of brand power is the price premium customers are willing to pay for the branded product compared to the identical unbranded product. In addition to the price premium, other dimensions of brand power include greater customer loyalty; enhanced perception of product performance; greater licensing, merchandising, and brand extension opportunities; less vulnerability to service inconsistencies and marketing crises; more elastic

response to price decreases and more inelastic response to price increases; greater communication effectiveness; and increased channel power. Because powerful brands can influence

all aspects of an offering, building strong brands is of crucial importance to sustainable growth.

MEASURING BRAND EQUITY:

Knowing the monetary value of a company's brands is essential for company valuation, such as in the case of mergers and acquisitions, sale of assets, licensing, financing, and estimating benefits from or damages to the brand. Despite the importance of brand equity, there is no commonly agreed-on methodology for its calculation; instead, there are several alternative methods, each placing emphasis on different aspects of brand equity. The three most common approaches to measuring brand equity are outlined below.

(a) **Cost-based approach:** It involves calculating brand equity based on the costs involved such as marketing research, advertising, and legal costs. This is applicable if the brand needs to be created from scratch at the time of valuation.

(b) **Market-based approach:** It involves calculating brand equity based on the difference in the cash flows generated from the branded product and a functionally equivalent but non-branded product, adjusted for the costs of creating the brand.

(c) **Financial approach:** It involves calculating brand equity based on the net present value of the cash flows derived from the brand's future earnings. This approach typically involves three key steps:

(1) estimating the company's future cash flows,

(2) estimating the contribution of the brand to these cash flows,

(3) adjusting these cash flows using a risk factor that reflects the volatility of the earnings attributed to the brand.

Objective Questions with Answers

(1) Fill in the blanks:

(a) The __________ strategy needs to be tailored specifically to the requirements of the target market.

(product or service, branding, promotion)

(b) __________ vary from product to product.

(performance, consistency, reliability)

(c) __________ is an important consideration in buyer's decision process.

(Durability, consistency, reliability)

(d) __________ plays a significant role in manufacturing, transporting, storing, and consuming the product.

(Design, Packaging, Marketing)

(e) __________ forecasts is the estimation of the total sales volume that can be achieved by all companies in a given market.

(Market, Sales. Executive)

(f) __________ is the process in which the consumer response to a particular offering is evaluated before its introduction to the market.

(concept testing, market testing, consumer research)

(g) Evaluation is the __________ stage of new product adoption.

(third, fifth, sixth)

(h) __________ means systematic search for new product ideas.

(Idea generation, idea screening, idea testing)

(i) __________ are among the first to apply new technologies to solve problems and exploit opportunities in the marketplace.

(Visionaries, skeptics, technology enthusiasts)

(j) __________ is a popular strategy to compete with low-priced rivals, that involves launching a fighting brand an offering that matches or undercuts the competitor 's price.

(fighting brand, sandwich, good-better-best)

[Ans.: (a - product or service); (b - Performance); (c - Durability); (d - Design); (e - Market); (f - Concept testing); (g - third); (h - Idea generation); (i - visionaries); (j - Flight brand)]

(2) State whether the following statements are True or False:

(a) Brand Equity is the message the consumer receives from the product, person, or thing.

(b) Lux is an example of umbrella branding.

(c) Cannibalization is a situation in which the sales of one of the company's offerings come at the expense of the sales of another offering.

(d) Downscale extensions involve extending the company's product line by adding an offering that delivers lower level of benefits at lower price.

(e) During the introduction stage, product awareness is low and there are few competitors.

(f) Diffusion of innovation as a process is generic.

(g) Evaluation is the stage when the consumer has made up his/her mind whether to remain with the product.

(h) Sales forecasts are used to make entry and exit decisions.

(i) The process of estimating the size of the potential market is referred to as demand forecasting.

(j) Compatibility is also a key consideration in single pricing

[Ans.: (a - False); (b - False); (c - True); (d - True); (e - True); (f - False); (g - False); (h - True); (i - True); (j - False)]

(3) **Match the Columns:**

A	B
(a) Idea generation	(i) Innovators
(b) Market risk	(ii) Laggards
(c) Technology enthusiasts	(iii) Search for new products
(d) Skeptics	(iv) Late majority
(e) Conservatives	(v) 5 C's

[Ans.: (a - iii); (b - v); (c - i); (d - ii); (e - iv)]

Question Bank for Self-Practice

(1) What are the factors affecting Product and Service Decisions?

(2) Discuss Forecasting new product demand using Primary data and Secondary data.

(3) Write a brief note on new product adoption.

(4) Explain the factors influencing diffusion of new offering.

(5) Explain new product development process.

(6) Briefly describe market risk and technological risk.

(7) Explain Moore's model of adoption of new technology. ***(Oct. 18)***

(8) Discuss product lifecycle at various stages and extending product lifecycle.

(9) How are product lines managed?

(10) Write a note on Managing Product Line Cannibalization.

(11) Explain brand as value creation process.

(12) Discuss brand hierarchy-Individual and umbrella branding.

(13) Explain Brand extension.

(14) What are the measures of brand equity?

(15) What is brand repositioning? What are the reasons to reposition a brand?

(16) Enumerate the two major types of branding. Highlight its advantages and disadvantages. ***(Oct. 18)***

(17) What are the strategies used for managing product lines to gain and defend market position? ***(Oct. 18)***

(18) Explain the key decisions to be taken for designing distribution channels. ***(Oct. 18)***

(19) Write a note on:

(a) The Fighting Brand Strategy.

(b) The sandwich strategy.

(c) The Good-Better-Best strategy.

(d) New product development process. ***(Oct. 18)***

UNIT - IV

CHAPTER 4

Strategic Decisions in Pricing, Promotion and Distribution and Strategic Growth Management

Learning Objectives

(A) Managing Price:

- Major Approaches to Strategic Pricing
- Price Sensitivity
- Understanding Competitive Pricing and Price Wars
- Factors Affecting Price Wars
- Approach for Developing a Strategic Response to Competitors' Price Cut
- Other Pricing Strategies

(B) Managing Promotions and Incentives:

- Promotion Mix Strategy
- Factors affecting Strategic Decisions in Promotion Mix
- Promotion Expenditure Strategy
- Methods of Determine Promotion Expenditure

Managing Incentives as a Value Creation Process:

- Goals of using Customer Incentives
- Monetary and Non-Monetary Incentives for Customers

Collaborator Incentives:

- Monetary Incentives

(C) Managing Distribution:

- Distribution as Value Creation Process
- Distribution Channel Design

(D) Strategic Growth Management:

- Gaining Market Position
- Pioneering New Markets
- Defending Market Position
- Objective Questions with Answers
- Question Bank For Self-Practice

(A) MANAGING PRICE

Price is the exchange value of an offering expressed in terms of money. Pricing directly influences the value that the offering creates for target customers, the company, and its collaborators. From a company's point of view, the price is the only marketing strategy that gets profits and revenue for the company; while all other strategies are only costs.

MAJOR APPROACHES TO STRATEGIC PRICING:

Strategic pricing sets a product's price based on the product's value to the customer, or on competitive strategy, rather than on the cost of production. This approach recognizes that people often make purchasing decisions based more on psychology than on logic, and what's the most valuable to the customer may not be what's most expensive to produce.

Major Approaches to Strategic Pricing:

The major approaches to strategic pricing are as follows:

(1) Cost-based Pricing: Cost-based pricing refers to a pricing method in which some percentage of desired profit margins is added to the cost of the product to obtain the final price. In other words, cost-based pricing can be defined as a pricing method in which a certain percentage of the total cost of production is added to the cost of the product to determine its selling price. Cost-based pricing can be of two types, namely, cost-plus pricing and mark- up pricing. Cost based pricing is the easiest way to calculate what a product should be priced at.

Advantages of Cost-based Pricing

(a) It is easy to understand and calculate.

(b) It ensures that the incurred costs are covered.

(c) They are fair and logical.

(d) They can be useful while setting up the price of new and innovative products.

(e) They can be helpful and do simplify investment appraisal decisions for example using required rate of return.

Limitations of Cost-based Pricing

(a) It ignores demand and price elasticity of demand.

(b) It ignores competitive situation, like whatever the competitors are charging.

(c) It does not take advantage of market potentials.

(d) It is inflexible in changes in demand level.

(e) It takes into account unavoidable costs.

(f) It can result in under-pricing or overpricing.

(g) It removes the motive to become more efficient.

(2) **Competitive Pricing:** Competitive pricing refers to a method in which an organization considers the prices of competitors' products to set the prices of its own products. The organization may charge higher, lower, or equal prices as compared to the prices of its competitors. The aviation industry is the best example of competition-based pricing where airlines charge the same or lower prices for same routes as charged by their competitors. In addition, the introductory prices charged by publishing organizations for textbooks are determined according to the competitors' prices.

Advantages of Competitive Pricing:

(a) Prices are based on fresh, accurate data about competitors, their products and prices.

(b) Multiple strategies automate the competitive pricing analysis.

(c) Competitive Pricing combines with other pricing strategies to fine-tune it and make it even more efficient.

(d) Variables can be adjusted by the manager if necessary according to business objectives.

Limitations of Competitive Pricing:

(a) Competitor-based pricing is difficult to implement for smaller companies

(b) Companies need extensive resources to implement the tools, money, staff, etc. hence it can be difficult for smaller companies to use successfully

(3) **Demand-based Pricing:** Demand-based pricing refers to a pricing method in which the price of a product is finalized according to its demand. If the demand of a product is more, an organization prefers to set high prices for products to gain profit; whereas, if the demand of a product is less, the low prices are charged to attract the customers. The success of demand-based pricing depends on the ability of marketers to analyse the demand.

This type of pricing can be seen in the hospitality and travel industries. For instance, airlines during the period of low demand charge lesser rates as compared to the period of high demand. Demand-based pricing helps the organization to earn more profit if the customers accept the product at the price more than its cost.

Advantage of Demand based Pricing

(a) Demand-based pricing may lead to potential high profit.

Limitations of Demand based Pricing:

(a) Management must be able to estimate demand at different price levels, which may be difficult to do accurately.

(b) Segments must be separate enough so that those that buy at lower prices can't sell to those who buy at higher prices.

PRICE SENSITIVITY:

Price sensitivity can be defined as the degree to which consumers' behaviour is affected by the price of the product or service. Price sensitivity is also known as 'price elasticity of demand' and this means the extent to which sale of a particular product or service is affected. Price sensitivity is, "the consumer demand for a product changed by the cost of the product." It basically helps the manufacturers to study the consumer behaviour and assists them in making good decisions about the products. The level of price sensitivity varies depending on various products and consumers. Price sensitivity, in economics, is generally quantified through the price elasticity of demand.

The homogenous goods which are widely available are more prone to show evidence of price sensitivity. Besides, some consumers are more price sensitive as compared to others. Consumers having fixed income or who are have tendency to save, will look around for lesser prices. In the meantime, some consumers with a higher income might feel that searching for better deals many a times might not be worth their time thus being less price sensitive.

Price sensitivity can be measured by dividing the percentage of the quantity purchased of the product or service with the percentage change in the price.

Formula:

The standardized formula for measuring price sensitivity is:

Price Sensitivity = (Change in Quantity Purchased/Change in Price)*%

Example:

In order to observe the price sensitivity, let us consider that, when Nestle apple nectar prices increase by 60%, the juice purchases fall with the figure of 25%. Using the mentioned formula we can easily calculate the price sensitivity for nestle apple nectar:

Price Sensitivity = – 25% / 60% = – 0.42

Therefore, it is concluded that for every of the percentage with which the Nestle apple nectar price increases; it affects the purchase by almost more than half percentage. Likewise, all the products can be studied by taking into account the changes in price and increase or decrease in the demand.

Those products are said to be price sensitive in which the change in price is not much but the demand is affected on the large scale. This is the case usually with the convenience products or the products which have a huge range of alternatives. Those products which are not much reactive to change in price are called price inelastic. Such products are usually daily used products and are a necessity of life and consumers do not have any other option other than purchasing them.

PSYCHOLOGICAL PRICING:

Psychological pricing is the practice of setting prices slightly lower than rounded numbers, in the belief that customers do not round up these prices, and so will treat them as lower prices than they really are. This practice is based on the belief that customers tend to process a price from the left-most digit to the right, and so

will tend to ignore the last few digits of a price. This effect appears to be accentuated when the fractional portion of a price is printed in smaller font than the rest of a price. An example of psychological pricing is setting the price of a pair of shoes at Rs. 899, rather than Rs. 900. This type of pricing is extremely common for consumer goods. A variation on the concept is to set prices higher, in the belief that customers will attach more importance to a product if the price is set at a premium level.

Five Psychological Pricing Effects:

Consumers do not always evaluate prices objectively; instead, their reaction to an offering's price depends on a variety of psychological factors. The five most common psychological pricing effects are as follows:

(1) **Reference-price effects:** In order to assess the price of a given offering, people usually evaluate it relative to other prices, which serve as reference points. These reference prices can be either internal, such as a remembered price from a prior purchase occasion, or external, such as the readily available price of a competitive offering. By strategically choosing the reference price, a company can frame the price of its offering in a way that makes it more attractive to potential buyers, for example, by comparing it to a more expensive competitive offering.

(2) **Price-quantity effects:** People are more sensitive to changes in price than to changes in quantity. For instance, the sales volume of a ten-pack of handkerchiefs priced at Rs. 200/- is likely to decline to a greater extent following a Rs. 40 price increase (a ten-pack for Rs. 240) than following a two-item reduction in unit volume (an eight-pack for Rs. 200), even though on a per-item basis, the eight pack is more expensive than the ten-pack.

(3) **Price-tier effects:** People encode prices in tiers, such that an item priced at $1.99 is typically encoded in the "$1+" price tier, whereas an item priced at $2.00 is typically classified in the "$2+" price tier. This tiered price encoding leads to the somewhat paradoxical perception that the difference between items priced at $1.99 and $2.00 is one dollar rather than one cent.

(4) **Price-ending effect:** Customers' perception of prices is also a function of price endings. For example, prices ending in "9" often create the perception of a discount, whereas prices ending in "0" might create the perception of quality.

(5) **Product-line effects:** Because many offerings are available as part of a company's product line, their relative prices can influence the demand for these offerings. To illustrate, restaurants often price wine they are trying to dispose of as the second cheapest in its assortment because many customers who are not willing to spend much on wine are often embarrassed to select the least expensive one.

UNDERSTANDING COMPETITIVE PRICING AND PRICE WARS:

Competitive pricing refers to a method in which an organization considers the prices of competitors' products to set the prices of its own products. This pricing method is used more often by businesses selling similar products, since services can vary from business to business, while the attributes of a product remain similar. This type of pricing strategy is generally used once a price for a product or service has reached a level of equilibrium, which occurs when a product has been on the market for a long time and there are many substitutes for the product.

Under this pricing strategy, the organization may charge higher, lower, or equal prices as compared to the prices of its

competitors. The aviation industry is the best example of competition-based pricing where airlines charge the same or lower prices for same routes as charged by their competitors. In addition, the introductory prices charged by publishing organizations for textbooks are determined according to the competitors' prices.

Price Wars:

Price war is "commercial competition characterized by the repeated cutting of prices below those of competitors". One competitor will lower its price than others will lower their prices to match. If one of them reduces their price again, a new round of reductions starts. In the short term, price wars are good for buyers, who can take advantage of lower prices. Often they are not good for the companies involved because the lower prices reduce profit margins and can threaten their survival.

Price wars are very common in today's competitive markets. Price wars might involve price reductions offered directly from manufacturers to end users (price discounts, volume discounts, and coupons), as well as price cuts and incentives offered by manufacturers to channel partners (wholesale discounts and various promotional allowances). For example, a significant increase in a manufacturer's promotional allowances might prompt retailers to lower prices, thus provoking a price war. Price wars often start when a company is willing to sacrifice margins to gain sales volume. Price wars usually begin with an action that results in a price cut on the customers' end.

FACTORS AFFECTING PRICE WARS:

In price wars, price cuts are popular among managers because they are easy to implement and typically produce fast results, especially when a company's goal is to increase sales volume. Not

every price cut, however, leads to a price war. The following factors affect the price war:

(1) **Offering differentiation:** Price wars are more likely when offerings are undifferentiated and can be easily substituted.

(2) **Cost structure:** Companies are more likely to engage in price wars when significant economies of scale can be achieved by increasing volume.

(3) **Market growth:** Price wars are more likely to occur when markets are stagnant, and to grow sales a company has to steal share from its direct competitors.

(4) **Customer loyalty:** Companies are more likely to engage in price wars in markets in which customers are price sensitive and their switching costs are low.

Price wars are easy to initiate but costly to win. Winning a price war often comes at the expense of a significant loss of profits, making it more of a narrow victory than a true success. Price wars are harmful to a company's profitability for several reasons:

(a) **Competitive reaction:** Because in most cases competitors can easily match price reductions, they are rarely sustainable. Firms with similar cost structures can quickly lower their prices in response to a competitor's action.

(b) **Increased price sensitivity:** Price wars often result in a shift in customers' future price expectations, such that the lowered prices become the reference points against which future prices are judged.

(c) **Brand devaluation:** Emphasis on price tends to erode brand power. This effect is worsen by the heavy price-focused communication campaigns that tend to accompany most price wars because a company needs to promote the low price

so that it can generate sufficient incremental volume to balance the lost profits resulting from the decrease in price. Price wars rarely enable companies to achieve their strategic goals, and in most cases the only beneficiaries of a price war are the company's customers. In general, the best strategy for a company to win a potential price war is to avoid it.

(d) **Fixed-cost effect:** Price reductions have an exponential impact on profitability. To illustrate, in the absence of an increase in sales volume, reducing the price of an offering with a 10% profit margin by 1% will result in a 10% decrease in operating income.

APPROACH FOR DEVELOPING A STRATEGIC RESPONSE TO COMPETITORS PRICE CUT:

A simple approach for developing a strategic response to a competitor 's price cut is as follows:

(1) **Verify the threat of a price war:** Price wars are often caused by miscommunication of pricing information or misinterpretation of a competitor 's goals. Thus, when competitive prices are not readily available e.g., in contract bidding, a company might incorrectly believe that a particular competitor has significantly lowered its price. It is also possible that a competitor's price decrease is driven by internal factors, such as clearing the inventory e.g., prior to introducing a new model, rather than by an intention to initiate a price war.

(2) **Evaluate the likely impact of the competitor's actions:** Identify customers most likely to be affected by competitors' price cuts and estimate their value to the company as well as their likely response to the price cut. In certain cases, a company might choose to abandon markets that have no strategic importance and in which customer loyalty is low.

(3) **Develop segment-specific strategies to address the competitive threat:** There are three basic strategies to respond to the threat of a price war: not taking an action, repositioning an existing offering, and adding new offerings.

(a) **Not taking an action:** The decision to ignore a competitor 's price cut reflects a company's belief that the price cut will not have a significant impact on the company's market position, that the price cut is not sustainable and will dissipate by itself, or that serving the customer segment targeted by the price cut is no longer viable for the company.

(b) **Repositioning the existing offering** by lowering the price or increasing the benefits. This reduction in price can be accomplished either on a permanent basis by lowering the actual price or as a temporary solution by offering price incentives.

(c) **Adding a new offering:** A common response to low-priced competitors involves launching a downscale extension, commonly referred to as a fighting brand. Using a fighting brand enables the company to compete for price-sensitive customers without discounting its premium offering.

OTHER PRICING STRATEGIES:

(1) **Captive Pricing:** It is also called as Complementary Pricing. It is a pricing strategy which is applicable to uniquely compatible, multipart offerings, where a company charges a relatively low introductory price for the first part of the offering and higher prices for the other parts. Examples: razors and blades, printers and cartridges, and cell phones and cell phone service. The unique compatibility is essential to the success of complementary pricing: Only the printer

manufacturer should be able to sell cartridges that fit its printers.

(2) **Cross Price Elasticity:** Cross price elasticity measures how a change in the price of one good affect the quantity demanded of another good when these goods are either substitutes or complements. The quantity demanded of a good in the market depends on its sale price but also on the prices of other goods related to it. When two goods are substitutes, like butter and margarine, when the price of butter increases, the demand for margarine is likely to increase. In this case, butter and margarine have positive cross price elasticity. When two goods are complements, like gasoline and cars, if the price of gas increases, the demand for cars is likely to decrease. In this case, gasoline and cars have negative cross price elasticity.

(3) **Deceptive Pricing:** Here the pricing of goods and services is set in such a way so as to cause a customer to be misled. Deceptive pricing is the method by which retailers use deceptive means to trick the customers into thinking that they are paying a lower price for the product, than what they are actually supposed to. Commonly used methods used by retailers practicing deceptive pricing are clearance sales and 'going out of business' sales, discount sales with hidden fees etc. Another common form of deceptive pricing is the 'Bait and Switch', where an attractive offer is first shown to lure customers, and is later not honoured.

In today's scenario, there is another type of deceptive pricing used by many e commerce websites. The website may mark up the price of a product from its actual price and then offer a small discount on the marked up price, thus leading customers to believe that they are in fact getting a discount, when in reality, the prices that they are paying might be even

more than the actual previous price. Hidden fees and surcharges are commonly encountered today, while trying to buy an item online. The hidden surcharges are displayed only during the checkout, thus misleading customers and encouraging them to select these items while browsing. For example, if the marked price of a Sports shoe is increased from Rs. 2000 to Rs. 3000, and then a discount of 33.33% is offered on the shoe, the customer is deceived into thinking that he is actually getting a discount of 33.33%, thus paying Rs. 2000, but this amount is the same as the actual price for which the shoe could have been purchased earlier.

(4) **Everyday Low Pricing:** Everyday low price (EDLP) is the pricing strategy used by retail stores that provides low prices to the customers every single day without any special pricing discount, sale, comparison shopping etc. Traditionally, retail stores used to keep regular pricing discounts, coupon clipping promotions, etc. to promote their sales and increase the traffic in their stores. But, this needs a lot of effort in terms of monetary aspects and physical aspects making it difficult to sustain the competitive advantage. The strategy of EDLP helps to convince the consumer that they will get better and low prices than other competitive stores everyday even though the promotions of competitors at regular intervals might provide lowest prices but they will not be available every day.

EDLP also helps the retail stores to reduce their demand fluctuation that would occur due to promotions on some days, and also reduces the probability of consumers receiving time degraded products. Stores like Big Bazaar and D-Mart have used the EDLP strategy to a very good extent for their success.

(5) **Experience Curve Pricing:** The pricing of a product at a lower than average-cost level on the basis that costs will decrease as the production experience increases.

The characteristics of Experience Curve Pricing:

(a) Competitive market,

(b) Price sensitive customers,

(c) High experience effect of the industry,

(d) More applicable for durable goods.

The most experienced producer benefits from having lower costs than its competitors. The logic of the experience curve pricing is to be price aggressive and decrease the price of the products below the current market price.

Some of the advantages of Experience Curve Pricing are:

(a) The competitors cannot follow the first firm and will certainly have to quit the market, the experienced firm will evolve in a less competitive market,

(b) The experienced firm can gain new market,

(c) New customers should enter the market thanks to lower prices, this represents the opportunity of achieving economies of scale,

(d) This strategy imposes sacrifices, but could be rapidly sustainable.

(6) **Loss Leader Pricing:** Loss leader pricing is an aggressive pricing strategy in which a store sells selected goods below cost in order to attract customers who will, according to the loss leader philosophy, makes up for the losses on highlighted products with additional purchases of profitable goods.

Loss leader pricing is employed by retail businesses; a somewhat similar strategy sometimes employed by manufacturers is known as penetration pricing. Retail stores employing this pricing strategy know that they will not make a profit on those goods that are earmarked as loss leaders. But such businesses reason that the use of such pricing mechanisms can sometimes attract large numbers of consumers who would otherwise make their purchases elsewhere.

In the e-commerce scenario, loss leader strategies are intended to draw consumer traffic to an online retailer's Web site. The technique is also used for product introduction, for instance, several free copies of a magazine to induce purchase of a subscription, low rates for cable services, and other "introductory" pricing which, if not always priced at a loss, function in the same way.

However it is noticed that some loss leader pricing strategies amount to illegal business practices. Also some argue that the strategy is basically predatory in nature, designed to ultimately force competitors out of business.

Business experts note that suppliers sometimes object to loss leader pricing as well, despite the greater volume of sales that the practice often spurs within a given store. These increases may be offset by drops in sales at other stores where the brand is still priced high. Such developments can strain relations between supplier and customer, and in worst case scenarios, bring pressure on the supplier to lower its price for the goods in question.

The retail industries have acknowledged side effect of loss leader pricing, known as "cherry picking." This is a practice wherein customers move from store to store, making

purchases only on those products that are priced near or below acquisition cost. Such purchasing patterns effectively foil the strategy underlying loss leader pricing to attract customers.

(7) **Horizontal Price Fixing:** Horizontal price-fixing occurs when two or more competitors conspire to set prices, price levels or price-related terms for their goods or services. This is done to maintain high profits. It becomes easy for monopolist to fix up the prices. It is a practice in which competitors explicitly or implicitly collaborate to set prices. With very limited exceptions, price-fixing is per illegal, regardless of its reasonableness or actual effect on competition. There are several fines and criminal sentences that may arise as a result of price-fixing.

(8) **Price Signalling:** Price Signalling strategy occurs when some competitors can produce at two different quality levels. Some will choose the high quality, which means higher cost and consequently higher prices preferred by the customers in general and other the low-quality level, with lower costs. Those one could sell their product to a lower price or to the high quality price, which is the price signalling strategy.

The primary characteristic of this strategy is that the information about the price should be easier to find than the information about the quality. Also, there may be some customers who would want to buy high quality products with higher prices, even if the quality is uncertain. It should be noted that this strategy is more relevant for durable goods than for services and non durable goods, because the real quality is more difficult to be determined.

(B) MANAGING PROMOTIONS AND INCENTIVES

PROMOTION MIX STRATEGY:

The Promotion Mix refers to the blend of several promotional tools used by the business to create, maintain and increase the demand for goods and services. It is a way for the company to communicate customer value and build customer relationships based on a blend of promotional tools including advertising, sales promotion, personal selling, public relations, and direct marketing (Kotler & Armstrong, 2014).

The two promotion mix strategies a marketer can choose from are:

(1) Push Strategy: Push marketing is a promotional strategy where business attempts to take their products to the customers. The term push results from the idea that marketers are attempting to push their products at consumers. Common sales tactics include trying to sell merchandise directly to customers via company showrooms and negotiating with retailers to sell their products for them, or set up point-of-sale displays. Often, these retailers will receive special sales incentives in exchange for this increased visibility.

Businesses often use push marketing when launching a new product, or when trying to stand out in a niche or crowded market. Thus the push strategy is when the product is push through the marketing channels to the consumers. The kiosks in malls have this strategy. Often walking by the kiosks to the destination store, they will "throw" the products at customers. Most of the workers at kiosks are commission based so they often persuade them to buy the product. Businesses often use push marketing when launching a new

product, or when trying to stand out in a niche or crowded market.

Example of Push Marketing:

One common example of push marketing can be seen in department stores that sell fragrance lines. The manufacturing brand of the fragrance will often offer sales incentives to the department stores for pushing its products onto customers. This tactic can be especially beneficial for new brands that are not well-established or for new lines within a given brand that needs additional promotion.

(2) **Pull Strategy:** Pull marketing takes the opposite approach. The goal of pull marketing is to get the customers to come to the marketers, hence the term pull, where marketers are attempting to pull customers in. Common sales tactics used for pull marketing include mass media promotions, word-of-mouth referrals and advertised sales promotions. From a business perspective, pull marketing attempts to create brand loyalty and keep customers coming back, whereas push marketing is more concerned with short-term sales.

Pull strategy is when the company creates advertisements towards the consumers which creates them to come and find the brand in stores. These can be commercials, ads, or even word of mouth. These tools creates consumers to find the products in retailers which then the retailers will demand it from the manufacturers. Businesses generally will use pull marketing when the customer knows what he is looking for or what problem he needs to solve, but needs pulling towards the solution as opposed to the solution offered by the competitors.

Example of Pull Marketing:

A customer can often recognize pull marketing campaigns by the amount of advertising that's being used. Pull marketing requires lots of advertising dollars to be spent on making brand and products a household name. One example includes the marketing of children's toys. In the first stage, the company advertises the product. Next, the children and parents see the advertisement and want to purchase the toy. As demand increases, retailers begin scrambling trying to stock the product in their stores. All the while, the company has successfully pulled customers to them.

FACTORS AFFECTING STRATEGIC DECISIONS IN PROMOTION MIX:

(1) **Nature of Product:** Different types of products require different promotional tools. Personal Selling is more appropriate as a great deal of pre-sale and after-sale services is required to sell and install such products. At the same time, advertising and publicity are more suitable for the consumer goods, especially the convenience goods. Type of product plays an important role in deciding on promotion mix. Product can be categorized in terms of branded products, non-branded products, necessity products, luxury products, new products, etc. All these types of products need different promotional tools. For example, advertising is suitable for the branded and popular products. Personal selling may be fit for non-branded products. Advertising, personal selling, sales promotion and publicity are the four tools that are used for a newly launched product to get a rapid consumer acceptance.

(2) **Use of Product:** Product may be industrial product, consumable and necessity product, or may be luxurious product that affects selection of promotion tools and media.

For example, advertising and sales promotion techniques are widely used for consumer goods while personal selling is used for industrial goods.

(3) **Nature of Market:** The number and location of customers greatly influence the promotion mix. In case the group of potential customers is small and are concentrated in a particular locality, then personal selling is more likely to be effective. Whereas, if the customer base is large and widespread, then the blend of advertising, personal selling, and the sales promotion is required to sell the product. Type of markets or consumer characteristics determines the form of promotion mix. Education, location, income, personality characteristics, knowledge, bargaining capacity, profession, age, sex, etc. are the important factors that affect company's promotion strategy.

(4) **Complexity of Product:** Product complexity affects selection of promotional tools. Personal selling is more effective for complex, technical, risky, and newly developed products as they need personal explanation and observation. On the other end, advertising is more suitable for simple and easy-handled products.

(5) **Availability of Funds:** The marketing budget also decides the promotion mix. If the funds available for the promotion are large, then the blend of promotional tools can be used, whereas in the case the funds are limited then the management must choose the promotional tool wisely. Financial capacity of company is an important factor affecting promotion mix. Advertising through television, radio, newspapers and magazines is too costly to bear by financially poor companies while personal selling and sales promotion are comparatively cheaper tools. Even, the company may opt

for publicity by highlighting certain commercially significant events.

(6) Nature of Technique: Each element of the promotional mix has unique features that significantly influence the purpose of promotion. Such as, the advertising is an impersonal mode of communication that reaches a large group of customers. Its expression can be developed with the use of colours and sound that helps in maintaining the long lasting brand image in the minds of the customer. Personal selling involves face to face interaction that helps in developing cordial and personal relations with the customers. Similarly, the sales promotion is short-term incentives given to the customers with the motive to boost sales for a shorter period of time.

(7) Stage of Product's Life: The promotion mix changes as the product moves along its life cycle. During the introduction stage, the principal objective of the promotion is to create the primary demand by emphasizing the product's features, utility, etc. therefore, the blend of advertising and publicity is required. As the product reaches its maturity stage the advertising and personal selling is required to maintain the demand of the customers Finally, during the decline stage the expenses on other promotional activities are cut, and more emphasis is laid on sales promotion with the intent to push up the declining sales.

(8) Promotional Strategy: The promotion mix largely depends on the company's promotional strategy, i.e. whether it accepts the Push Strategy or a Pull Strategy. In a Push strategy, the manufacturer forces the dealers to carry the product and promote it to the customer, i.e. convince the potential buyers to buy it. Here, personal selling and trade promotion are likely to be more effective. In the case of a Pull Strategy, the consumers ask the dealers to carry the product, i.e. customers

themselves purchase the product. Here, advertising and consumer promotion are more appropriate.

(9) **Readiness of Buyer:** Different promotional tools are required at different stages of buyer readiness. Such as, at the comprehension stage, the blend of advertising and personal selling plays a vital role. Whereas at the conviction stage, personal selling is more effective. At the time of sales closure, the blend of sales promotion and personal selling is likely to be more effective. Hence, the advertising and publicity are more effective at the early stages of buying decision process while the sales promotion and personal selling are more effective during the later stages.

(10) **Purchase Quantity and Frequency:** Company should also consider purchase frequency and purchase quantity while deciding on promotion mix. Generally, for frequently purchase product, advertising is used, and for infrequently purchase product, personal selling and sales promotion are preferred. Personal selling and advertising are used for heavy users and light users respectively.

(11) **Size of Market:** In case of a limited market, personal selling is more effective. When market is wide with a large number of buyers, advertising is preferable. Place is also an important issue. Type of message, language of message, type of sales promotion tools, etc., depend on geographical areas.

(12) **Level of Competition:** Promotional efforts are designed according to type and intensity of competition. All promotional tools are aimed at protecting company's interest against competition. Level of promotional efforts and selection of promotional tools depend on level of competition.

(13) **Promotional Objectives:** It is the prime factor affecting promotional mix. Different objectives can be achieved by

using different tools of promotional mix. If company's objective is to inform a large number of buyers, advertising is advisable. If company wants to convince limited consumers, it may go for personal selling. Even, when company wants to influence buyers during specific season or occasion, the sales promotion can be used. Some companies use publicity to create or improve brand image and goodwill in the market.

(14) **Miscellaneous Factors:** Miscellaneous factors that affect promotion mix are as follows:

(i) Price of Product,

(ii) Type of Marketing Channel,

(iii) Degree of Product Differentiation,

(iv) Desire for Market Penetration, etc.

PROMOTION EXPENDITURE STRATEGY:

A promotion expense is a cost that a business incurs to make its products or services better known to consumers, usually in the form of giveaways. In simple words it is the expenditure incurred in promoting a product.

METHODS TO DETERMINE PROMOTION EXPENDITURE:

(1) **Breakdown Method:** Breakdown Method is the reverse of build up method. In this method, the market potential for the product is identified and then the market share that the company is targeted is assessed. On this basis, the sales are forecast. This is followed by determining the number is sales that each salesperson is required to make and the territories are then accordingly allocated to individual salesperson.

(2) **Build-up Method:** Build up Method consists of designing sales territories by assessing the attractiveness of current and prospective customers. In this method, current and

prospective customers are identified and their sales requirements are individually analysed. The sales persons are assigned territories on the basis of the sales volumes and the number of calls they are supposed to make to these accounts.

(3) **Push Promotion:** A push promotion works to create customer demand for companies product or service through promotion: for example, through discounts to retailers and trade promotions. Appealing package design and maintaining a reputation for reliability, value or style are also used in push strategies. One example of a push strategy is mobile phone sales, where manufacturers offer discounts on phones to encourage buyers to choose their phone.

Push promotional strategies also focus on selling directly to customers, for example, through point of sale displays and direct approaches to customers. Push promotional strategies work well for lower cost items, or items where customers may make a decision on the spot. New businesses use push strategies to develop retail markets for their products and to generate exposure.

(4) **Pull Promotion:** A pull promotion uses advertising to build up customer demand for a product or service. For example, advertising children's toys on children's television shows is a pull strategy. The children ask their parents for the toys, the parents ask the retailers and the retailers the order the toys from the manufacturer. Other pull strategies include sales promotions, offering discounts or two-for-one offers and building demand through social media sites such as YouTube. Once a product is already in stores, a pull strategy creates additional demand for the product. Pull strategies work well with highly visible brands, or where there is good brand awareness. This is usually developed through advertising.

MANAGING INCENTIVES AS A VALUE-CREATION PROCESS:

Incentives boosts the value of the offering by increasing its benefits and/or reducing its costs. A manager must consider the Five Cs i.e. target customers, the company's goals and resources, its collaborators, competitors, and the context when designing incentives so that the company operate and develop incentives that deliver market value. The Five Cs are the key decision factors that must be considered in order to design products and services that can create value for target customers, the company, and its collaborators.

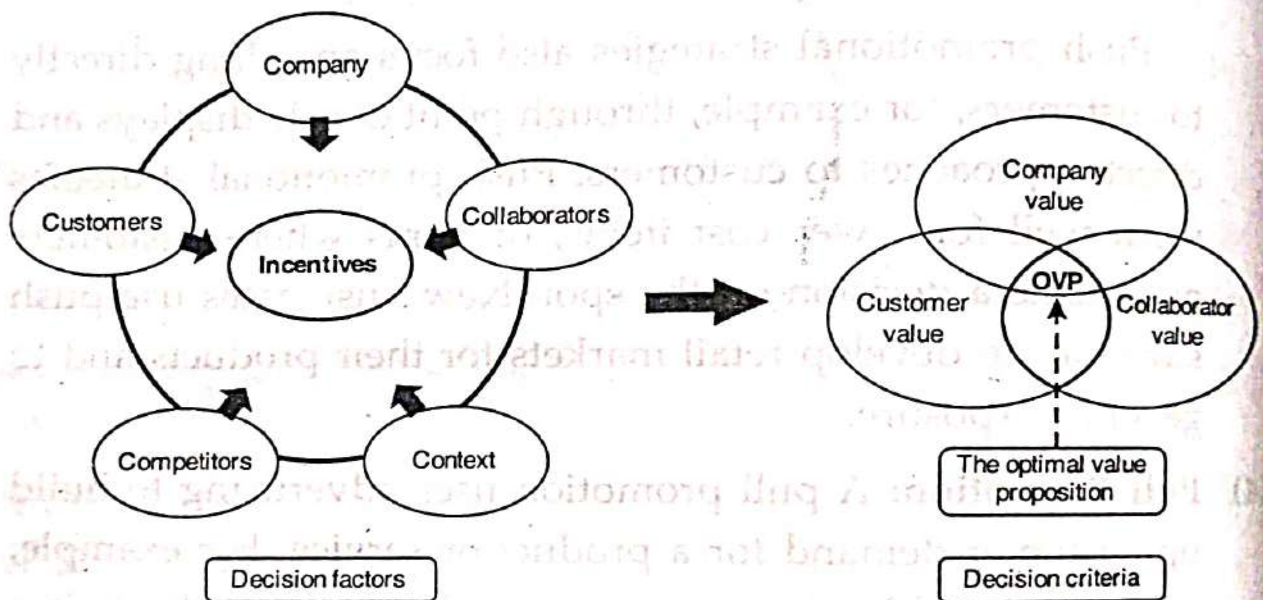

Fig. 4.1: Managing Incentives as a Value Creation Process

(Source: Strategic Marketing Management by Alexander Chernev)

The key decision factors that are important in managing incentives are:

- **Customers:** incentives are a function of customers' needs and are more common for voluntary purchases and among price-conscious consumers.

- **Company:** The use of incentives is also driven by a company's desire to achieve certain sales goals within a specific time frame.
- **Collaborators:** Incentives are also a function of the company's collaborators, such as distribution channels many of which have gained considerable power and require significant concessions from manufacturers in the form of trade incentives.
- **Competitors:** Competitors often influence incentives by making it necessary for companies to offer incentives to maintain competitive parity.
- **Context:** The use of incentives is also a function of various context factors; for example, adverse economic conditions tend to lead to greater reliance on incentives to stimulate demand.

In addition to being influenced by the Five Cs, incentives also depend on the other marketing mix factors:

- **Product and Service:** Incentives are a function of the product and service aspect of the offering, whereby the increased commodity leads to increased use of incentives.
- **Brand:** Incentives are a function of the offering's brand, such that luxury brands are less likely to utilize monetary incentives.
- **Price:** An offering's incentives are often set as part of its overall pricing strategy for example, everyday low pricing involves limited use of incentives, whereas high-low pricing relies heavily on incentives.
- **Communication:** An offering's incentives are a function of its communication, such that consumer-focused communications i.e. pull strategy are often complemented by consumer incentives, and retailer-focused

communications i.e. push strategy are often complemented with trade incentives.

- **Distribution:** Incentives are also a function of an offering's distribution, whereby consolidated, powerful channels typically require greater trade incentives.

Customer Incentives:

Customer incentives can be offered by either the manufacturer i.e. manufacturer incentives or the channel member i.e. retailer incentives. Manufacturer incentives can then be delivered either directly by the manufacturer or indirectly by the retailer through incentives.

Companies typically use customer incentives to achieve three primary goals: to manage the timing of customers' purchases, to selectively reach specific segments, and to respond to competitive promotions.

GOALS OF USING CUSTOMER INCENTIVES:

(a) **Managing purchase timing:** Time-sensitive incentives can encourage customers to purchase a company's offering in a time frame which is consistent with the company's goals. Purchase timing is usually managed by offering widespread incentives, such as temporary price reductions, available to all target customers.

(b) **Optimizing the value of the offering to different segments:** A company might offer incentives to selectively enhance the value of an offering for particular customer segments. For example, a company might give discounts to economically weak customers, frequent buyers, and high-volume buyers.

(c) **Responding to a competitor's promotion:** Companies often attempt to attract customers by offering incentives, which, in

turn, forces other companies serving these customers to respond by offering similar incentives.

MONETARY AND NON-MONETARY INCENTIVES FOR CUSTOMERS:

An incentive is a reward given to a person to stimulate his or her actions to a desired direction. Incentives have motivational powers and are widely utilized by individuals and large organizations to motivate employees.

Customer incentives can either be monetary or non–monetary.

Monetary Incentives:

Monetary incentives aim to reduce an offering's costs by providing customers with a monetary inducement to purchase the offering. Most common forms of monetary incentives include coupons, rebates, price reductions, and volume discounts.

- **Coupons:** It entitle the buyer to receive a price reduction for a given product or service at the time of purchase.
- **Rebates:** It involve cash refunds given to customers after they make a purchase.
- **Price reductions:** It involve price discounts that do not require any action from customers.
- **Volume discounts:** It involve price reduction offers conditional upon the purchase of multiple items.

Non-Monetary Incentives:

Non-monetary incentives typically aim to increase the value of the offering. The most common forms of non-monetary incentives are premiums, prizes, contests, sweepstakes, games, and loyalty programs.

- **Premiums:** This involve bonus products or services offered for free or at deeply discounted prices as an incentive for purchasing a particular offering. Premiums can be

delivered instantly with the purchase packaged with the product or can require the customer to send in a proof of purchase to receive the premium.

- **Prizes:** This offer customers the opportunity to win an award as an incentive for purchasing a particular offering. Unlike premiums, where the reward is given with every purchase, in the case of prizes the actual reward is given to a relatively small number of participants. Prizes can be both monetary and nonmonetary.
- **Contests, sweepstakes, and games:** This involve prizes that typically require customers to submit some form of entry and are usually not contingent on customers purchasing the offering. Winners are selected by a panel of judges in the case of contests, by drawing in the case of sweepstakes, or by an objective criterion, such as points collected in the case of games.
- **Loyalty programs:** This involve rewards related to the frequency, volume, and type of products and services purchased. Loyalty programs can be both monetary i.e. cash-back credit cards offering a reward based on purchase volume) and nonmonetary i.e. frequent-flyer airline awards and frequent-stay hotel awards.

COLLABORATOR INCENTIVES:

Collaborator incentives are mostly offered to members of the distribution channel. These incentives, also referred to as trade incentives, can have multiple objectives, such as gaining distribution through a particular channel, encouraging channel members to stock the offering at certain inventory levels to avoid stock-outs or to transfer the inventory from the manufacturer to retailers, and encouraging channel members to promote the company's offering.

Similar to customer incentives, collaborator/ trade incentives can be either monetary or nonmonetary.

MONETARY COLLABORATOR INCENTIVES:

Monetary incentives involve payments or price discounts given as encouragement to purchase the product or as an inducement to promote the product to customers. Collaborator monetary incentives include the following:

- **Slotting allowance:** It is an incentive paid to a distributor to allocate shelf space for a new product.
- **Stocking allowance:** It is an incentive paid to a distributor to carry extra inventory in anticipation of an increase in demand.
- **Co-operative advertising allowance:** It is an incentive paid by the manufacturer to a distributor in return for featuring its offerings in a retailer 's advertisements. The magnitude of the allowance can be determined as a percentage of the distributor 's advertising costs or as a fixed dollar amount per unit.
- **Market-development allowance:** It is an incentive for achieving a certain sales volume in a specific customer segment.
- **Display allowance:** It is an incentive paid by the manufacturer to a distributor in return for prominently displaying its products and/or services.
- **Spiffs:** It is incentives such as cash premiums, prizes, or additional commissions given directly to the salesperson rather than the distributor as a reward for selling a particular item. Because they encourage the retailer 's sales personnel to "push" the product to customers, spiffs are often referred to as "push money."

- **Volume discount:** It is the price reductions determined based on purchase volume.
- **Volume rebate (also referred to as volume bonus):** It is an incentive paid by the manufacturer to a distributor as a reward for achieving certain purchase volume benchmarks (e.g., selling 1,000 units per quarter).
- **Off-invoice incentive:** It is any temporary price discounts offered by manufacturers to distributors.
- **Cash discount:** It is the price reductions for payments made instantly or within a brief time frame.
- **Inventory financing (also referred to as floor planning):** It is the loans provided to distributor for acquiring manufacturers' goods.

(C) MANAGING DISTRIBUTION

Distribution means to spread the product throughout the marketplace such that a large number of people can buy it. Distribution is the process of making a product or service available for the consumer or business user who needs it. This can be done directly by the producer or service provider, or using indirect channels with distributors or intermediaries.

Distribution management refers to the process of overseeing the movement of goods from supplier or manufacturer to point of sale. It is a term that refers to numerous activities and processes such as packaging, inventory, warehousing, supply chain, and logistics. Distribution management is an important part of the business cycle for distributors and wholesalers. The profit margins of businesses depend on how quickly they can turn over their goods. The more they sell, the more they earn, which means a better future for the business. Having a successful distribution

management system is also important for businesses to remain competitive and to keep customers satisfied.

Distribution involves doing the following things:

- A good transport system to take the goods into different geographical areas.
- A good tracking system so that the right goods reach at the right time in the right quantity.
- A good packaging, which takes the wear and tear of transport.
- Tracking the places where the product can be placed such that there is a maximum opportunity to buy it.
- It also involves a system to take back goods from the trade.

DISTRIBUTION AS A VALUE CHAIN PROCESS:

Distribution aims to deliver the offering to target customers in a way that creates value for the company and its collaborators. The Five Cs i.e. customers, company, collaborators, competitors, and context are the key decision factors that must be considered in order to design products and services that can create value for target customers, the company, and its collaborators. Thus when designing a distribution strategy a manager must consider the five Cs and design a distribution channel that optimizes the offering's value for the relevant market entities.

The Five Cs i.e. the customers, company, collaborators, competitors, and context are the key decision factors that must be considered in designing the offering's distribution. Thus, the design of a distribution channel depends on the following aspects:

- Choice of target customers, such that offerings targeting mass markets are more likely to involve multiple distributors across different geographic markets, whereas there is narrow distribution in case of niche markets.

- Choice of a distribution channel which is also a function of the company's goals and resources, such that a company seeking market dominance is likely to utilize diverse channels in order to achieve extensive coverage. An offering's distribution strategy also reflects the balance of power between the company and its collaborators, whereby a company might select multiple distributors or open its own retail stores in order to minimize the power of any particular channel.
- The choice of a distribution channel is also a function of competitors' offerings, such that companies seeking to avoid direct confrontation (e.g., to circumvent a price war) might seek alternative channels.
- Distribution is a function of the economic, business, technological, socio-cultural, regulatory, and physical context; for example, the preference for store size varies by culture and traditions, whereby customers in many countries favour smaller, individually operated retail outlets to consolidated superstore chains.

In addition to being influenced by the Five Cs, distribution also depends on:

(a) **The marketing mix factors:** product, service, brand, price incentives, and communication.

(b) An offering's distribution is a function of its product and service characteristics; for example, novel, complex, and/or undifferentiated products tend to benefit from channels offering higher levels of sales support.

(c) Distribution must also be aligned with the offering's brand, such that lifestyle brands benefit from using a direct distribution model that ensures a consistent brand image.

(d) Distribution is also a function of price, such that low-priced offerings are typically associated with channels offering lower levels of service, whereas high-price offerings typically involve higher levels of service.

(e) The choice of distribution channel is also a function of the offering's use of incentives: Incentive-rich offerings typically call for channels that offer frequent sales (e.g., department stores), whereas offerings that do not rely on incentives are a better fit with retailers using everyday low pricing (e.g., Walmart).

(f) The selection and design of a distribution channel are often a function of the channel's ability to effectively communicate the offering's benefits and "push" the offering to target customers.

DISTRIBUTION CHANNEL DESIGN:

The process of designing and managing distribution channels involves several key decisions with respect to the - channel structure, channel coordination, channel type, channel coverage and channel exclusivity.

1) **Channel Structure:** Channel structure describes the members of the distribution channel and the flow of goods and services from the manufacturer to customers. Based on their structure, channels can be direct, indirect, and hybrid.

   (a) **Direct Channels:** It involve a distribution model in which the manufacturer and the end customer interact directly with each other without intermediaries.

   Advantages of Direct Channels:

   - It is a more effective distribution system resulting from better coordination of the different aspects of the value-delivery process;

- It has greater cost efficiency resulting from eliminating intermediaries;
- It has greater control over the environment in which the offering is delivered to customers i.e. the level of service, product display, and availability of complementary offerings.
- It has closer contact with end users, allowing the manufacturer to obtain first hand information about their needs and their reactions to its offerings.

Limitations of Direct Channels:

- It establishes a direct-distribution channel, especially a brick-and-mortar one, takes time;
- In most cases, it is difficult to achieve the same breadth of distribution outlets with direct distribution as with multiple intermediaries;
- The launching and managing a distribution channel requires different assets and competencies that many manufacturers do not have readily available;
- In most cases, direct-distribution channels require a large upfront fixed-cost investment.

(b) Indirect Channels: It involve a distribution model in which the manufacturer and the end customer interact with each other through intermediaries, such as wholesalers and retailers.

Advantages of Indirect Channels:

- The rapid distribution that can be implemented instantly;
- The broad coverage that enables the company to reach all or the majority of its target customers;

- It has greater effectiveness of the value-delivery process because manufacturers can benefit from the assets and core competencies of intermediaries;
- It has potential economies of scale because intermediaries perform similar activities for a variety of manufacturers;
- There is no large upfront investment necessary because a manufacturer using intermediaries is "renting" shelf space for its products.

Limitations of Indirect Channels:

- A more complex channel structure that could have a negative impact on the efficiency of the distribution system;
- The reliance on intermediaries could increase the overall distribution costs;
- The loss of control is over the selling environment;
- It has greatly diminished ability to communicate with and collect information directly from customers;
- It has potential for vertical channel conflicts resulting from different strategic goals and profit-optimization strategies for the manufacturer and its intermediaries.

(c) **Hybrid Channels:** It involve a distribution model in which the manufacturer and the end customer interact with each other through multiple channels, both directly and through intermediaries.

Advantages of Hybrid Channels:

- It has combining the benefits of direct and indirect distribution.

Limitations of Hybrid Channels:

- It has combining the benefits of direct and indirect distribution.
- The potential for channel conflict in cases where both the company and its intermediaries target the same customers.

Hybrid channels are gaining popularity in categories where manufacturers can relatively easily establish direct online distribution.

(2) **Channel Coordination:** Coordination benefits individual channel members by improving the effectiveness and cost efficiency of the channel as a whole. The conventional forms of coordination are: ownership-based, contractual, and implicit.

(a) **Common Ownership:** It is a type of coordination in which different channel members are parts of the same company.

Advantages of Common Ownership:

- It has better optimization of channel functions, resulting in greater effectiveness and cost efficiency through joint profit optimization and system integration,
- It has greater degree of information sharing,
- It has better control and performance monitoring.

Limitations of Common Ownership:

- It has high initial investment;
- There is potential internal inefficiencies because of lack of competition;
- The lower cost efficiency results from a smaller scale;

- There is the need to develop distribution channel expertise when moving from one business function to another e.g., from manufacturing to distribution.

In addition, in the case of hybrid distribution, in which some but not all channels are company owned, ownership often results in channel conflicts with independent distributors.

(b) **Contractual Relationship:** It is a type of coordination that involves binding contractual agreements among channel members, including long-term contractual agreements, joint ventures, and franchise agreements.

Advantages of Contractual Relationship:

- Initial investment is low.
- Implementation is fast.
- It has lower cost efficiency resulting from partners' scale and/or specialization.

Limitations of Contractual Relationship:

- It has potential inefficiencies resulting from less coordination,
- The strategic risk of creating a potential competitor through forward or backward integration by sharing know-how and strategic information i.e. pricing policies, profit margins, and cost structure.
- There is the decreased ability to monitor performance.

(c) **Implicit channel:** The coordination is achieved without explicit contractual agreements.

Advantage of Implicit Channel

- It is much more flexible

Limitations of Implicit Channel:

- The inability to predict the behaviour of various channel members
- A lower level of commitment, resulting in an unwillingness to invest resources to customize the channel for a particular manufacturer.
- May lead to lower cost efficiency resulting from a lower degree of channel coordination.

(3) **Channel Type:** Channels vary in terms of the breadth and depth of their assortments. Based on the breadth of their assortments, channels can be classified into one of two types - Specialized or Broad.

Specialized retailers that have narrow assortment which focus on relatively few product categories such as Foot Locker, Office Depot, CarMax, etc. On other hand the mass retailers, such as Walmart, tend to carry much broader assortments.

Based on the **Depth** of the assortment, channels can be classified into - Limited and Extensive.

Limited-assortment retailers, carry a relatively small number of items within each category, whereas extensive assortment retailers, carry a fairly large number of items in each category.

Specialized retailers carrying extensive assortments of items, that are often referred to as category killers.

(4) **Channel Coverage:** Channel strategies vary in their coverage depending on the number of outlets made available to meet demand of target customers. The coverage can be of two types, namely, extensive coverage and limited coverage.

In Extensive coverage, a larger proportion of customers in a given market can access the offerings readily available. On the other hand in limited coverage, the offerings are available only in select markets and/or through specialized retailers. The drawback of extensive coverage is that it involves high cost and often leads to channel conflicts. The drawback of limited availability is that it runs the risk of the offering being unavailable to some target customers.

5) **Channel Exclusivity:** Channel exclusivity refers to the degree to which an offering is made available through different distribution channels. Channel exclusivity is commonly used to reduce the potential for horizontal channel conflicts, which occur when distributors with different cost structures and profit margins sell identical offerings to the same customers. To remove the negative impact of a direct price comparison of the same offering across retailers, manufacturers often release channel-specific product variants that vary in functionality and, therefore, cannot be directly compared.

(D) STRATEGIC GROWTH MANAGEMENT

Managing growth is the most common route to profitability. The alternative approach to gain profits is by ensuring long term growth by many organisations. Apart from gaining profits it also increases the challenges of the company and promotes creativity.

Four key issues in managing growth merit are:

(1) Gaining and defending market position,

(2) Managing sales growth,

(3) Developing new products,

(4) Managing product lines.

GAINING MARKET POSITION:

The constant competition requires the developing of dynamic strategies to manage a company's market position. Managing market position presents companies with questions such as how will they gain market position and how will they defend their current market position.

From a competitive point of view, a company can gain share by using three core strategies:

(1) Stealing share from competitors already serving this market (Steal Share),

(2) Growing the market by attracting new customers to the category (Market Growth),

(3) Creating new markets (Market Innovation).

(1) Steal-Share Strategy: The steal-share strategy refers to a company's activities aimed at attracting customers from its competitors rather than trying to attract customers who are new to the product category. Example: Apple targeting Windows users rather than aiming at customers who have never had a computer.

A company's steal-share strategy can vary in breadth: It can narrowly target customers of a specific competitor e.g., Pepsi targeting Coke customers, or it can broadly focus on the competitor 's market as a whole e.g. Cola trying to steal share from all competitors, including Coke and Pepsi. The steal-share strategy is illustrated in the figure below, where the dark-shaded segment represents the company's current market share and the light-shaded segment represents the share it aims to gain from the competition. Because of its focus on attracting only competitors' customers, the steal-share focus is also referred to as selective demand strategy.

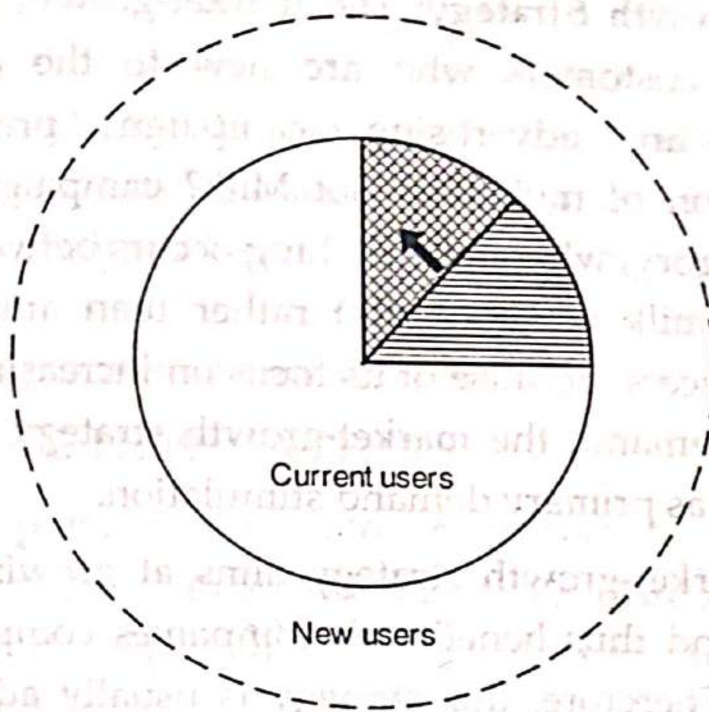

Fig. 4.2: Steal-Share Strategy

To succeed in attracting competitors' customers, a company needs to present these customers with a compelling value proposition. There are two basic steal-share strategies:

- **Differentiation strategy:** It aims to steal share from the competition by demonstrating the superiority of the company's offering. The differentiation might involve superior benefits, such as better performance and/or lower costs.
- **Similarity strategy:** It is also referred to as a "me-too" strategy, aims to establish multiple points of parity and steal share from a competitor, typically the market leader, by showing that a company's and a competitor's offerings are, in fact, identical. One particular form of the "me-too" strategy is cloning, which involves emulating the incumbent's offering, usually with slight variations to avoid patent and trademark infringement liability.

(2) **Market-Growth Strategy:** The market-growth strategy aims to attract customers who are new to the category. For example, an advertising campaign promoting the consumption of milk (the Got Milk? campaign) builds the entire category, whereby switching occurs between substitute products (milk vs. non-milk) rather than among different milk producers. Because of its focus on increasing the overall category demand, the market-growth strategy is sometimes referred to as primary demand stimulation.

The market-growth strategy aims at growing the entire category and thus benefits all companies competing in that category. Therefore, this strategy is usually adopted in the early stages of an offering's life cycle when the overall market growth is high and competition is not a primary issue. Moreover, because offerings tend to gain share proportionately to their current market position, in the case of relatively mature products, the market-growth strategy is likely to benefit the market leader.

It involves a case in which a company's offering has a superior value proposition relative to the competition because of a technological breakthrough, the addition of unique product benefits, or a price advantage, making it likely to gain a disproportionately large share compared to its current share of new customers. In this case, a small share offering can be more successful in growing the market than the leader.

(3) **Market-Innovation Strategy:** The market-innovation strategy is similar to the market-growth strategy in that a company gains market position by attracting customers who are not using any products and services in a given category. The key difference is that instead of converting new customers to the existing category in which the company faces its current rivals, it defines an entirely new category in which direct

competitors are absent. Because of its focus on uncontested markets, the market innovation strategy, also referred to as the Blue Ocean Strategy, that often leads to high profit margins and rapid growth. It attracts new market entrants. It targets customers who are new to the particular product category and the market-innovation strategy typically involves pioneering new markets.

PIONEERING NEW MARKETS:

The term pioneer or first mover refers to the first company to establish its presence in a particular sector. Based on the sector in which the company is the first mover, there are four common types of pioneers:

- **Technology pioneer:** the company that first introduces a new technology to a category
- **Product pioneer:** the company that is first to commercially introduce an entirely new ("new-to-the-world") product
- **Business model pioneer:** the company that is first to introduce a new business model
- **Market pioneer:** the company that first introduces a given offering to a particular target market

For the purposes of marketing analysis, the term pioneer is used in reference to the first company to introduce its offering to a given market defined by a particular customer need. Thus, a pioneer in a market is the company that first reached a given customer segment with its offering. At the same time, another company might have pioneered a product by introducing it to a different customer segment, the company that first introduced it to target customers is considered the pioneer for these customers.

Benefits of being a Pioneer:

Pioneering a market offers various advantages that are not available to later entrants. These advantages include:

(1) **Preference formation:** A pioneering company has the unique opportunity to shape customer preferences, creating a close association between its brand and the underlying customer need. For example, Google, Amazon.com, Twitter, and Xerox not only helped shape customer preferences but also became synonymous with the entire category.

(2) **Switching costs:** As a pioneer, a company has the opportunity to build loyalty by creating switching costs for its customers. These switching costs could be of three types:

- **Functional Loss:** It is the loss of the unique features of the pioneer 's offering
- **Monetary Loss:** In this the cost of replacing proprietary equipment or a penalty for breaking a contract
- **Psychological Loss:** It is the cost of learning the functionality of a competitor's offering.

(3) **Resource Advantage:** The pioneer can benefit from preventing scarce resources such as raw materials, human resources, geographical locations, and collaborator networks. For example, the pioneer might be able to lock out the competition by securing exclusive access to strategically important mineral resources. Similarly, the pioneer might prevent competitors' access to a particular human resource in short supply, such as engineers, designers, and managers. The pioneer may also prevent strategically important geographic locations in both cyberspace and real space. E.g. Starbucks, McDonald's and Cyberspace e.g. drugstore.com, and cars.com.

The pioneer can also prevent the competition by making collaborator alliances with strategically important partners such as distributors or advertisers. For example, sporting goods manufacturers offer exclusive long-term contracts to promising athletes early in their careers, thus precluding competitors from collaborating with these athletes when their careers take off.

(4) **Barriers to Entry:** The pioneer can create technological barriers to prevent competitors from entering the market. For example, the pioneer might secure the exclusive rights to use a particular invention or design that is essential for developing offerings that will successfully address a specific customer need.

Being the pioneer also enables a company to establish a proprietary technological standard (e.g., operating system, communication protocol, and video compression) that ensures the sustainability of its technological advantage in the marketplace.

(5) **Learning curve:** The pioneer often benefits from learning curve advantages, allowing it to heighten production effectiveness and efficiency as its cumulative output increases over time. In other words, being in business longer than its competitors often gives the pioneer a competitive edge in technological know-how, level of workforce experience, and productivity.

The Drawbacks of Being a Pioneer:

Being a pioneer does not always benefit the company. Pioneers face a distinct set of disadvantages that might impede rather than facilitate their market success. The three most common drawbacks are explained as follows:

(1) **Free Riding:** A later entrant might be able to free ride on the pioneer's resources, including its investments in technology, product design, customer education, regulatory approval, infrastructure development, and human resource development. Like many companies come up with innovative and unique products and soon other companies may come copy and come up with cheaper substitutes. Alternatively, a follower could reverse engineer the pioneer's product and improve on it, while investing only a fraction of the resources required to develop the original product. Federal Express built on DHL's idea to start overnight deliveries in the United States.

(2) **Incumbent Inertia:** Being a market leader often leads to complacency, thus leaving technological and market opportunities open to competitors. Example: IBM's reliance on mainframes, even when mainframes were being replaced by networked computers, enabled competitors such as Dell and Hewlett-Packard to gain a foothold in IBM's markets and steal some of its most valuable clients.

Incumbent inertia might also be driven by reluctance to cannibalize existing product lines by adopting a new technology or a new business model. For example, the traditional brick-and-mortar booksellers failed to recognize the importance of e-commerce, allowing Amazon.com to establish a dominant presence in online book retailing.

Incumbent inertia might also result from a "sunk-cost mentality", whereby managers feel compelled to utilize their large investments in such technology or markets that may be unfeasible. For example, Ford lost its leading market position to General Motors in the 1930s as it was reluctant to make the necessary investments to modify existing manufacturing facilities to diversify its product line.

(3) **Market Uncertainty:** The third drawback of being a pioneer is the uncertainty associated with the offering. Indeed, whereas the pioneer has to deal with the uncertainty surrounding the technology and market demand, a follower can learn from the pioneer 's successes and failures and design a superior offering. Because of the uncertainty associated with the introduction of a new offering, companies with strong brands and distribution capabilities may choose to be late-market entrants, which enables them to learn from the pioneer's experience and develop an effective and cost-efficient market-entry strategy. Such companies use their brand and channel power to manage the risk associated with new product development and new market entry, allowing them to be successful late entrants into a given market. To illustrate, the first sugar-free soft drink was introduced in the United States by Cott in 1947, and the first sugar-free cola was introduced by Royal Crown in 1962, only to be overtaken by Coca-Cola and PepsiCo, which used their branding and distribution power to dominate the consumer soft drink market.

As concluded from the drawbacks of being a market pioneer that when entering new markets, a company should strive not only to gain share but also to create a business model that cannot be easily copied/imitated by its current and future competitors. Because market success attracts competition, creating a sustainable competitive advantage is the key to a successful pioneering strategy.

DEFENDING MARKET POSITION:

A company needs to develop strategies to defend its market position because business success always attracts competition. There are three basic ways in which a company can react to a competitor 's activities:

(1) **Not Taking Action:** The decision to ignore a competitor 's action reflects a company's belief that these actions either will have no material impact on the company's market position or that the competitive threat is not sustainable and will disappear by itself. For example, a company might decide that its upscale offering will not be affected by the entry of a low-price, low-quality competitor and, therefore, not consider this action a direct threat. In the same way, a company might not react to a competitor 's price reduction if it believes that this low-priced position is not sustainable in the longer term.

(2) **Repositioning the Existing Offering:** A company might choose to reposition its offering in one of two ways:

- It might change the offering's value proposition to increase its appeal to current customers or
- It might reposition the offering to appeal to a different customer segment.

Repositioning to increase the offering's value for current customers:

Because value is a function of benefits and costs, enhancing the value of an offering might be achieved in two ways: by increasing benefits and by decreasing costs,

- **Increasing an offering's benefits:** To increase the attractiveness of its offering, a company might choose to:

  (a) Enhance the functional benefits of the offering by improving the offering's performance,

  (b) Increase the monetary benefits by adding monetary rewards

  (c) Increase the psychological benefits by enhancing the offering's image.

For each of these strategies to succeed, the increase in benefits must actually be perceived as such by customers; improving the offering's performance on attributes that are unobservable by customers is not likely to enhance its customer value.

- **Decreasing an offering's costs:** As in the case of increasing benefits, decreasing an offering's costs can be achieved by:
  - (a) Decreasing its functional, monetary, and psychological costs.
  - (b) Because the price of an offering is the most important component of customers' costs, price reduction and adding monetary incentives are the most common forms of cost decreases.

Repositioning to attract new customers:

A company might decide to reposition its offering to meet the needs of different target customers by to increasing an offering's value for existing customers, Repositioning implies a change in the value proposition of a given offering in one of two ways:

- **Vertical repositioning:** Vertical Repositioning is a layout in which a company modifies the value proposition of an offering by moving it into a different price tier, either upscale or downscale. In the case of upscale repositioning, the company increases the price of an offering while augmenting its benefits. In contrast, downscale repositioning involves a decrease in an offering's price and a corresponding decrease in benefits.
- **Horizontal repositioning:** Horizontal Repositioning is the layout in which a company modifies the value proposition of an offering by altering its benefits without necessarily moving it to a different price tier.

Objective Questions with Answers

(1) Fill in the Blanks:

(a) __________ refers to a pricing method in which some percentage of desired profit margins is added to the cost of the product to obtain the final price.

(Cost-based pricing, Demand based, Competitive)

(b) __________ pricing is the practice of setting prices slightly lower than rounded numbers.

(Psychological, Competitive, Demand based)

(c) __________ might involve price reductions offered directly from manufacturers to end users.

(Price wars, Price sensitivity, Discounts)

(d) __________ is also called as Complementary Pricing.

(Captive, competitive, Deceptive)

(e) __________ is the pricing strategy used by retail stores that provides low prices to the customers every single day without any special pricing discount, sale, comparison shopping etc.

(Every day low price, Deceptive, Captive)

(f) __________ strategy occurs when some competitors can produce at two different quality levels.

(Price Signalling, experience curve, loss leader pricing)

(g) __________ boosts the value of the offering by increasing its benefits and/or reducing its costs.

(Incentives, Discounts, Promotions)

(h) __________ is entitle the buyer to receive a price reduction for a given product or service at the time of purchase.

(coupons, rebates, price reductions)

(i) __________allowance is an incentive paid to a distributor to allocate shelf space for a new product.

(slotting, stocking, display)

(j) __________ is the loans provided to distributor for acquiring manufacturers' goods.

(inventory financing, volume rebate, slotting allowance)

[Ans.: (a - Cost-based pricing); (b - Psychological); (c - Price wars); (d - Captive); (e - Everyday low price); (f - Price Signalling); (g - Incentives); (h - Coupons); (i - slotting); (j - Inventory financing)]

(2) **State whether the following statements are True or False:**

(a) Indirect channel involve a distribution model in which the manufacturer and the end customer interact with each other through multiple channels, both directly and through intermediaries.

(b) Channel exclusivity refers to the degree to which an offering is made available through same distribution channels.

(c) The steal-share strategy refers to a company's activities aimed at attracting customers from its competitors rather than trying to attract customers who are new to the product category.

(d) Technology pioneer means the company that first introduces a new technology to a category.

(e) Vertical Repositioning is a layout in which a company modifies the value proposition of an offering by moving it into a different price tier, either upscale or downscale.

(f) Cost based pricing is the complicated way to calculate what a product should be priced at.

(g) Price wars in economics, is generally quantified through the price elasticity of demand.

(h) In price quantity effects people are more sensitive to changes in price than to changes in quantity.

(i) Price wars usually begin with an action that results in a price cut on the customers' end.

(j) Common form of deceptive pricing is the Price Elasticity of Demand.

[Ans.: (a - False); (b - False); (c - True); (d - True); (e - True); (f - False); (g - False); (h - True); (i - True); (j - False)]

(3) **Match the Columns:**

A	B
(a) Every Day Low Pricing	(i) You-Tube
(b) Loss leader pricing	(ii) Cash refund to customers
(c) Pull promotion	(iii) Big Bazaar
(d) Rebates	(iv) Initial low investment
(e) Contractual relationship	(v) Cherry picking

[Ans.: (a - iii); (b - v); (c - i); (d - ii); (e - iv)]

Question Bank for Self-Practice

(1) Discuss the major approaches to strategic pricing.

(2) What is Price sensitivity ?

(3) What is psychological pricing? Explain the psychological pricing effects.

(4) Write a note on competitive pricing and price wars.

(5) Explain factors affecting price wars.

(6) What are the approach for developing a strategic response to competitors price cut?

(7) Write a note on following pricing strategies-captive pricing, cross price elasticity, deceptive pricing, everyday low pricing, experience curve pricing, loss leader pricing, horizontal price fixing, price signalling.

(8) What is Promotion mix strategy? Explain factors affecting strategic decisions in promotion mix.

(9) What is Promotion expenditure strategy? Explain the Methods to determine Promotion expenditure.

(10) Describe Managing incentives as a value creation process.

(11) What are the goals of using customer incentives?

(12) Explain Monetary incentives for customers, Non-monetary incentives for customers.

(13) What is Collaborator incentives? Explain the monetary incentives.

(14) Explain Distribution as value creation process.

(15) Discuss Distribution channel design process.

(16) Explain in brief the channel structure

(17) Explain strategies to gain market position,

(18) What is Pioneering new markets? Explain the types of Pioneer.

(19) What are the benefits and drawbacks of being a Pioneer.

(20) What are the strategies to defend market position.

(21) Explain the concept of Strategic growth management. ***(Oct. 18)***

(22) Write short notes on:

(a) Competitive pricing.

(b) Price wars.

(c) Skimming and penetration pricing. ***(Oct. 18)***

(d) Promotion mix strategy.

(e) Pioneering new market products. ***(Oct. 18)***

University Question Paper October - 2018

N.B. (1) All questions are compulsory. (2) Figures to the right indicate full marks. (3) Support your answers with suitable examples.

(1) (A) Fill in the blanks: (Any Eight) (8)

(1) __________ identifies the market in which the company operates, defines the value exchange among key market entities in which superior value can be created.

(2) The __________ involves a set of unique marks and associations that identify the offering and create value beyond the product and service aspects of the offering.

(3) __________ are the entities that work with the company to create value for the target customers.

(4) __________ is a marketing concept that outlines what a business should do to market its product or service to its customers.

(5) __________ is a value that an offering aims to create for all the relevant participants in the market.

(6) __________ integration involves acquisition of an entity at a different level in value delivery chain.

(7) Moore's model identifies __________ distinct categories.

(8) __________ are incentives such as cash premium price or commission which is given directly to a salesperson.

(9) __________ strategy is a popular strategy to compete with low-priced rivals involves, an offering that matches or undercuts the competitor's price.

(10) __________ elasticity means the percentage change in quantity sold of a given offering caused by a percentage change in the price of another offering.

(B) True or False: (Any Seven) (7)

(1) Tactics are a set of activities of marketing mix to execute a given strategy.

(2) The Bottom-up approach of business model aims at identifying market and then creating optimal value for customer.

(3) Target compatibility is a company's ability to fulfill the needs of target customers in intense competition.

(4) Implicit collaboration typically does not involve contractual relationship and is much more flexible than explicit collaboration.

(5) Customer research forecasting rely on expert's opinions to estimate market demand.

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- Direct Taxes (Finance)
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- E-Commerce and Digital Marketing (Marketing)
- Sales & Distribution Management (Marketing)
- Customer Relationship Management (Marketing)
- Industrial Marketing (Marketing)
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