# Introduction to Business: Marketing

***(Lecture synopsis, Based on Principles of Marketing by Philip Kotler, Tenth Edition.)**

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## ⌗ Define Marketing:

Marketing is defined as a social and managerial process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others.

## ⌗ What is Market?

A market is the set of actual and potential buyers of a product. These buyers shape a particular need or want that can be satisfied through exchange relationships. The size of market depends on the number of people who exhibit the need, have resources to engage in exchange, and are willing to exchange these resources for what they want.

## ⌗ Marketing Management Orientations:

There are five distinctive concepts under which organizations conduct their marketing activities: *the production, product, selling, marketing, and societal marketing concepts.*

## ⌗ The Production concept:

The production concept holds that consumers will favor products that are available and highly affordable. Therefore, management should focus on improving production and distribution efficiency. This concept is one of the oldest orientations that guide sellers.

## ⌗ The Product Concept:

The product concept hold that consumers will favor products that offers the most in quality, performance, and innovative features. Thus, an organization should devote energy to making continuous product improvements.

## ⌗ The Selling Concept:

The selling concept holds that consumers will not buy enough of the firm's products unless it undertakes a large-scale selling and promotion efforts. The concept is typically practiced with unsought goods- those that buyers do not normally think of buying, such as insurance or blood donations. These industries must be good at tracking down prospects and selling them on product benefits.

## ⌗ The Marketing Concept:

The marketing concept holds that achieving organizational goals depends on knowing the needs and wants of target markets and delivering the desired satisfaction better than competitors do. Under the marketing concept, customers' focus and value are the *paths* to sales and profits.

## ⌗ The Societal Marketing Concept:

The societal marketing concept holds that the organization should determine the needs, wants, and interests of target markets. It should then deliver superior value to customers in a way that maintains or improves the consumer's and society's well being. **Three considerations underlying the societal marketing concept are: Consumers (want satisfaction), Company (profits), and Society (human welfare).**

## ⌗ Strategic Planning:

Each company must find the game plan that makes the most sense given its specific situation, opportunities, objectives, and resources. This is the focus of *strategic planning*- the process of developing and maintaining a strategic fit between organization's goals and capabilities and its changing marketing opportunities.

*Strategic planning* sets the stage for the rest of the planning in the firm. Companies usually prepare annual plans, long range plans, and strategic plans. The annual plan and long-range plans deal with the company's current businesses and how to keep them going. In contrast, the strategic planning involves adapting the firm to take advantage of opportunities in its constantly changing environment.

At the corporate level, the company starts the strategic planning process by defining its overall purpose and missions. This mission then is turned into detailed supporting objectives that guide the whole company. Next, headquarters decides what portfolio pf businesses and products are best for the company and how much support to give each one. In turn, each business and product develops detailed marketing, and other departmental plans that support the company wide plan. Thus, marketing planning occurs at the business-unit, product and market levels, supporting company strategic planning with more detailed planning for specific marketing opportunities.

## ⌗ The Marketing Process:

*Marketing process* is defined as the process of *1) analyzing marketing opportunities, 2) selecting target markets, 3) developing the marketing mix, and managing the marketing effort.*

*Consumers* stand in the center. The goal is to build strong and profitable relationships with customers. As a first step, through market segmentation, targeting, and positioning, the company decides which customers it will serve and how. It defines the total market, then divides it into smaller segments, selects the most promising segments, and focuses on serving and satisfying these segments. Next, the company designs a marketing mix made up of factors under its control, -product, price, place, and promotion. To find the best marketing mix and put into action, the company engages in marketing analysis, planning, implementation, and control. Through these activities, the company watches and adapts to the actors and forces in the marketing environment.

## ⌗ Market Segmentation:

The market consists of many types of customers, products, and needs. The marketer has to determine which segments offer the best opportunity for achieving company objectives. Consumers can be grouped and served in various ways based on geographic, demographic, psychographics, and behavioral factors. *The process of dividing a market into distinct groups of buyers who have different needs, characteristics, or behavior and who might require separate products or marketing program, is called market segmentation.*

A market segment consists of consumers who respond in a similar way to a given set of marketing effort. In the car market, for example, consumers who choose the biggest, most comfortable car regardless of price make up one market segment. Customers who care mainly about price and operating economy make up another segment

## ⌗ Target *Marketing*:

Target marketing involves evaluating each market segment's attractiveness and selecting one or more segments to enter. A company should target segments in which it can generate the greatest customer value profitably and sustain it over time.

## ⌗ Market Positioning:

Market positioning is arranging for a product to occupy a clear, distinctive, and desirable place relative to competing products in the minds of target consumers.

## ⌗ Segmenting Consumer Markets:

There is no single way to segment a market. A marketer has to try different segmentation variables, alone and combination, to find the best way to view the market structure. Consumer markets can be segmented on the basis of geographic areas, demographic aspects, psychographic aspects, and behavioral aspects.

### ⌗ Geographic Segmentation:

Geographic segmentation calls for dividing the market into different geographic units such as nations, regions, states, countries, cities, or neighborhoods. A company may decide to operate in one or a few geographical areas, or to operate in all areas but pay attention to geographic differences in needs and wants.

⌘ **Demographic Segmentation:**

Demographic segmentation divides the market into groups based on variables such as age, gender, family size, family life cycle, income, occupation, religion, race, generation, and nationality. Demographic factors are the most popular bases for segmenting customer groups.

⌘ **Psychographic Segmentation:**

Psychographic segmentation divides buyers into different groups based on social class, lifestyle, or personality characteristics. People in the same demographic group can have very different psychographic makeups.

⌘ **Behavioral Segmentation:**

Behavioral segmentation divides buyers into groups based on their knowledge, attitudes, uses, or responses to a product. Many marketers believe that behavioral variables are the best starting point for building market segmentation.

The following table summarizes the scenario
**MAJOR SEGMENTATION VARIABLES FOR CONSUMER MAREKT.**

| | |
|---|---|
| **Geographic** | |
| World region or country | North America, Western Europe, Middle East, China, India. |
| Country region | Pacific, Mountain,. West North Central, South Atlantic, New England. |
| City or metro size | Under 5,000, 5000-20,000, 20,000-50,000, 50,000-100,00 and so on |
| Density | Urban, suburban, rural |
| Climate | Northern, Southern |
| **Demographic** | |
| Age | Under 6, 6-11, 12-19, 20-34, 35-49, 5—64, 65+ |
| Gender | Male, female |
| Family size | 1-2, 3-4, 5+ |
| Family life-cycle | Young, single; married, no children; young, married with children; older, married with children; married, no children under 18; older, single; other . |
| Income | Under $10,00; $ 10,00-20,000; $ 20,000-30,000, $30,000-50,000; $50,000-100,00; $ 100,000 and over |
| Occupation | Professional and technical; managers; officials; farmers, retired; students; unemployed, |
| Education | Grade school or less, some high school; high school graduate, some college, college graduate. |
| Religion | Catholic, protestant, Jewish, Muslim, Hindu and others |
| Race | Asian, Hispanic, black, white |
| Generation | Baby boomers, Generation X, Generation Y |
| Nationality | North American, South American, British, French, German, Indian, Japanese. |
| **Psychographic** | |
| Social class | Lower lowers, Upper lower; Working class, middle class, Upper middles, lower uppers, Upper uppers. |
| Lifestyle | Achievers, Strivers, Strugglers. |
| Personality | Compulsive, gregarious, authoritarian, ambitious. |
| **Behavioral** | |
| Occasion | Regular occasion, Special occasion |
| Benefits | Quality, service, economy, convenience, speed |
| User status | Nonuser, ex-user, potential user, first-time user, regular user |
| User rates | Light users, medium user, heavy user |
| Loyalty status | None, medium, strong, absolute |

## ⌗ Marketing Mix:

Once the company has decided on its overall competitive marketing strategy, it is ready t begin planning the details of the marketing mix, one of the major concepts in modern marketing. The marketing mix is the set of controllable, tactical marketing tools that the firm blends to produce the response it wants in the target market. The marketing mix consists of everything the firm can do to influence the demands for its product. The many possibilities can be collected into four groups of variables known as the **four Ps: product, price, place and promotion. These four Ps can also be presented as 4Cs: Product can be placed as customer solution, Price as Customer cost, Place as Convenience, and promotion as Communication.**

*Product* means the goods-and-service combination the company offers to the target market. Thus, a Ford Taurus product consists of nuts, and bolts, spark plugs, pistons, headlights, and thousands of other parts. Ford offers several Taurus styles and dozens of optional features. The car comes fully serviced and with a comprehensive warranty that is as much a part of the product as the tailpipe.

*Price* is the amount of money customers have to pay to obtain the product. Ford calculates suggested retail price that its dealers might charge for each Taurus. But, Ford dealers rarely charge the full sticker price. Instead, they negotiate the price with customers, offering discounts, trade-in allowances, and credit terms. These actions adjust prices for the current competitive situation and bring them into line with the buyer's perception of the car's value.

*Place* includes company activities that make up the product available to target consumers. Ford partners with a large body of independently owned dealerships that sell the company's many different models. Ford selects its dealers carefully and supports them strongly. The dealers keep an inventory of Ford automobiles, demonstrate them to potential buyers, negotiate prices, close sales, and service the cars after the sale.

*Promotion* means activities that communicate the merits of the product and persuade target customers to buy it. Ford spends more than $ 2.3 billion each year on advertising to tell consumers about the company and its many products

## ⌗ What is a Product?

A product is defined as anything that can be offered to a market for attention, acquisition, use, or consumption that might satisfy a want or need.

## ⌗ Consumer products:

***Consumer products*** are products and services bought by final consumers for personal consumption. Consumer products include convenience products, shopping products, specialty products, and unsought products.

***Convenience products*** are consumer products and services that the customer usually buys frequently, immediately, and with a minimum of comparison and buying effort. Examples include soap, candy, newspaper, and fast food.

***Shopping*** products are less-frequently-purchased consumer products and services that customers compare carefully on suitability, quality, price, and style. When buying shopping products and services, consumers spend much time and effort in gathering information and making comparisons. For example: Furniture, clothing, used cars, major appliance, and hotel and airline services.

***Specialty products*** are consumer products and services with unique characteristics or brand identification for which a significant group of buyers is willing to make a special purchase effort. Examples include specific brands and types of cars, high-priced photographic equipments, designer clothes, and the services of medical or legal specialists.

***Unsought products*** are consumer products that the consumers either does not know about or knows about but does not normally think of buying. Most major new innovations are unsought until the consumer becomes aware of them through advertising. Classic examples of known but unsought products and services are life insurance, cemetery plots, and blood donations to Red Crescent. By their very nature, unsought products require a lot of advertising, personal selling, and other marketing effort.

## Industrial Products:

***Industrial products*** are those purchased for further processing or for use in conducting a business. Thus, the distinction between a consumer product and an industrial product is based on the purpose for which the product is bought. If a person buys an Econo ball-point for his personal use it is a consumer product and if it is bought for his business record keeping it is an industrial product.

The three groups of industrial products and services include ***material and parts, capital equipments and supplies and services.*** *Material and parts* include raw material and manufactured materials and parts. Raw materials consist of farm products (wheat, cotton, livestock, fruits, vegetable), and natural products (fish, lumber, crude petroleum, iron ore). Manufactured materials and parts consist of component materials (iron, yarn, cement, wires) and components parts (smaller motors, tires, castings). Most manufacture materials and parts are sold directly to industrial users.

***Capital items*** are industrial products that aid in the buyer's production or operations, including installations and accessory equipments. ***Installation*** consists of major purchase such as buildings (factories, offices) and fixed equipment (generator, drill presses, large computer systems, elevators). ***Accessory equipment*** includes portable equipment and tools (hand tools, lift, trucks) and office equipment (computers, fax machines, desks). They have a shorter life than installation and simply aid in the production process.

The final group of business product is ***supplies and services***. Supplies include operating supplies (lubricants, coal, paper, pencils) and repair and maintenance items (paints, nails, brooms). Supplies are the convenience products of the industrial field because they are usually purchased with a minimum of effort or comparison. Business services include maintenance and repair services (window cleaning, computer repair) and business advisory services (legal, management consulting, advertising). Such services are usually supplied under contract.

## ⌗ New-Product Development Strategy:

Given the changes in consumer tastes, technology, and competition, companies must develop a steady stream of new products and services. A firm can obtain new products in two ways. One is through acquisition-by buying a whole company, a patent, or a license to produce someone else's product. The other is through new product development in the company's own research-and-development department. **By new products we mean original products, product improvements, product modifications, and new brands that the firm develops through its own research-and-development efforts**. The development of original products, product improvements, product modifications, and new brands through the firm's R & D efforts is termed as New Product Development.

Companies face huge problem in developing new products –they must develop new products, but the odds weigh heavily against success. The solution lies in strong new product planning and setting up a systematic new-product development process for finding and growing new products. Following are the eight steps that must be followed in developing new products:

## ⌗ Idea Generation

New-product development starts with idea generation –the systematic search for new-product ideas. A company typically has to generate many ideas in order to find a few good ones. According to one well-known management consultant, "For every 1,000 ideas, only 100 will have enough commercial promise to merit a small experiment, only 10 of those will warrant substantial financial commitment, and of those only a couple will turn out to be unqualified success."

Major sources of new-product ideas include internal sources and external sources such as customers, competitors, distributors and suppliers and others.

## ⌗ Idea Screening:

The purpose of idea generation is to create a large number of ideas. The purpose of the succeeding stages is to *reduce* the number. The first idea-reducing stage is **idea screening,** which helps spot good ideas and drop poor ones as soon as possible. Product development costs rise greatly in latter stages, so the company wants to go ahead only with the product ideas that will turn into profitable products. As one marketing executive suggests, " Three executives sitting in a room can get 40 good ideas ricocheting off the wall in minutes. The challenge is getting a steady stream of good ideas out of the labs and creativity campfire, through marketing and manufacturing, and all the way to consumers."

Many companies require their executives to write up new-product ideas on a standard form that can be reviewed by a new –product committee. The write-up describes the product, the target market, and the competition. It makes some rough estimates of market size, product price, development time and costs, manufacturing costs, and rate of return. The committee then evaluates the idea against a set of general criteria such as, Is the product truly useful to consumers and society? Is it good for the particular company? Does it mesh well with company objectives and strategies? Do the company have people, skills, and resources to make it succeed? Does it deliver more value to customers than do competing products? Is it easy to advertise and distribute? Many companies have well-designed systems for rating and screening new product ideas.

### ⌗ Concept Development and Testing:

An attractive idea must be developed into a product concept. It is important to distinguish between a product idea, a product concept, and product image. A product idea is an idea for a possible product that the company can see itself offering to the market. A product concept is a detailed version of the idea stated in meaningful consumer terms. A product image is the way consumers perceive an actual or potential product.

### ⌗ Concept Testing:

Concept testing calls for testing new product concepts with groups of target consumers. The concept may be presented to consumers symbolically.

For some concept tests, a word or picture description might be sufficient. However, a more concrete and physical presentation of the concept will increase the reliability of the concept test. Today, some marketers' are finding innovative ways to make concepts more real to consumer subjects. For example, some are using virtually reality to test product concepts.

### ⌗ Marketing Strategy Development:

Marketing strategy development is associated with designing an initial marketing strategy for a new product based on the product concept. The marketing strategy statement consists of three parts. The first part describes the target market, the planned positioning; and the sales, market share, and profit goals for the first few years.

### ⌗ Business Analysis:

Once management has decided on its product concept and marketing strategy, it can evaluate the business attractiveness of the proposal. Business analysis involves a review of the sales, costs, and profit projection for a new product to find out whether they satisfy the company's objectives. If they do, the product can move to the product development stage.

To estimate sales, the company might look at the sales history of similar products and conduct surveys of market opinion. It can then estimate minimum and maximum sales to assess the range of risk. After preparing the sales forecast, management can estimate the expected costs and profits for the product, including marketing, R&D, operations, accounting and finance costs. The company then uses the sales and costs figures to analyze the new product's financial attractiveness.

### Product Development:

So far, for many new-product concepts, the product may have existed only as word description, a drawing, or perhaps a crude mock-up. If the product concept passes the business test, it moves into product development. Here, R&D, or engineering develops the product concept into physical product, the product development step, however, now calls for a large jump in investment. It will show whether the product idea can be turned into a workable product.

The R&D department will develop and test one or more physical version of the product concept. R&D hopes to design a prototype that will satisfy and excite consumers and that can be produced quickly and at budgeted costs. Developing a successful prototype can take days, weeks, months or even years. Often, products undergo rigorous tests to make sure that they perform safely and effectively, or that consumers will find value in them.

The prototype must have the required functional features and also convey the intended psychological characteristics.

### Test Marketing:

If the product passes functional and consumer tests, the next step is test marketing, the stages at which the product and marketing program are introduced into more realistic market settings. Test marketing gives the marketer experience with marketing the product before going to the great expense of full function. It lets the company test the product and its entire marketing program-positioning strategy, advertising, distribution, pricing, branding, and packaging, and budget levels.

### Commercialization:

Test marketing gives management the information needed to make a final decision about whether to launch the new product. If the company goes ahead with commercialization- introducing the new product into the market- it will face high cost. The company will have to build or rent a manufacturing facility. And it may have to spend, in the case of a new consumer packaged good, between $ 10 million and $200 million for advertising, sales promotion, and other marketing efforts in the first year.

The company launching q new product must first decide on introduction *timing,* and then to decide *where* to launch the product.

## Product Life-Cycle Strategies:

After launching the new product, management wants the product to enjoy a long and happy life. Although it does not expect the product to sell forever, the company wants to earn a decent profit to cover all the effort and risk went into launching it. Management is aware that each product will have a life cycle, although its exact shape and length is not known in advance.

Product life cycle is the course that a product's sales and profits take over time. The product life-cycle has five distinct stages:

1. *Product development* begins when the company finds and develops a new-product idea. During product development, sales are zero and the company's investment costs mount.
2. *Introduction* is a period of slow sales growth as the product is introduced in the market. Profits are nonexistent in this stage because of the heavy expense of product introduction.
3. *Growth* is a period of rapid market acceptance and increasing profits.
4. *Maturity* is a period of slowdown in sales growth because the product has achieved acceptance by most potential buyers. Profits level off or decline because of increased marketing outlays to defend the product against competitors.
5. *Decline* is the period when sales fall off and profits drop.

Not all products follow this product life cycle. Some products are introduced and die quickly; others stay in the mature stage for a long, long time. Some enter declining stage and are then cycled back into the growth stage through strong promotion or repositioning.

**SUMMARY OF PRODUCT LIFE CYCLE CHARACTERISTICS, OBJECTIVES AND STRATEGIES:**

| **CHARACTERISTICS** | **INTRODUCTION** | **GROWTH** | **MATURITY** | **DECLINE** |
|---|---|---|---|---|
| Sales | Low sales | Rapidly rising sales | Peak sales | Declining sales |
| Costs | High cost per customers | Average cost per customer | Low cost per customer | Low cost per customer |
| Profits | Negative | Rising profits | High profits | Declining profits |
| Customers | Innovators | Early adopters | Middle majority | Laggards |
| Competitors | Few | Growing number | Stable number beginning to decline | Declining number |
| Marketing objectives | Create product awareness and trial | Maximize market share | Maximize profit while defending market share | Reduce expenditure and milk the brand |
| Strategies | | | | |
| Product | Offer a basic product | Offer product extensions, service, warranty, | Diversify brand and models | Phase out weak items |

| | | | | |
|---|---|---|---|---|
| Price | Use cost-plus | Price to penetrate market | Price to match or beat competitors | Cut price |
| Distribution | Build selective distribution | Build intensive distribution | Build more intensive distribution | Go selective; phase out unprofitable outlets |
| Advertising | Build product awareness among early adopters and dealers | Build awareness and interest in the mass market | Stress brand differences and benefits | Reduce to level needed to retain hard-core loyals. |
| Sales Promotion | Use heavy sales promotion to entice trial | Reduce to take advantage of heavy consumer demand | Increase to encourage brand switching | Reduce to minimal level |

## What is price?

In the narrowest sense, price is the amount of money charged for a product or service. More broadly, price is the sum of all the values that consumers exchange for the benefits of having or using the product or service.

Price is the only element in the marketing mix that produces revenue; all other elements represent costs. Price is also one of the most flexible elements of the marketing mix. Unlike product features and channel commitments, price can be changed quickly. At the same time, pricing and price competition is the number one problem facing many marketing executive. Yet, many companies do not handle pricing well.

## Factors to Consider When Setting Prices:

A company's pricing decisions are affected by both internal and external environmental factors.

## Internal Factors Affecting Pricing Decisions:

Internal factors affecting pricing include the company's marketing objectives, marketing strategy, costs and organizational considerations.

### Marketing Objectives:

Before setting a price, the company must decide on its strategy for the product. If the company has selected its target market and positioning carefully, then its marketing mix strategy, including price, will be fairly straightforward. For example, when Honda and Toyota decided to develop their Acura and Lexus brands to compete with European luxury-performance cars in the higher income segment, this required charging a high price. Pricing strategy, thus, largely determined by decisions on market positioning.

At the same time, the company may seek additional objectives. Common objectives include *survival, current profit maximization, market share leadership, and product quality leadership*. Companies set *survival* as their major objectives if they are troubled by too much capacity, heavy competition, or changing consumer wants. To keep a plant going, a company may set a low price, hoping to increase demand. In the long run, however, the firm must learn how to add value that consumers will pay for or face extinction.

Many companies use *current profit maximization* as their pricing goal. They estimate demand and costs will be at different prices and choose the price that will produce the maximum current profit, cash flow, or return on investment. Other companies want to obtain *market share leadership*. To become the market share leader, these firms set prices as low as possible.

A company might decide that it wants to achieve *product quality leadership*. This normally calls for charging a high price to cover higher performance quality and high cost of R&D. Fort example, Caterpillar charges 20 percent to 30 percent more than competitors for its heavy construction equipment based on superior product and service.

A company might also use price to attain other, more specific objectives. It can set prices low to prevent competitors from entering the market or set prices at competitors' level to stabilize the market. Prices can be set to keep the loyalty and support of resellers or to avoid government intervention. Prices can be reduced temporarily to create excitement for a product or to draw more customers into retail store. One product may be priced to help the sales of other products in the company's line. *Thus, pricing may play an important role in helping to accomplish the company's objectives at many levels*.

Not-for-profit and public organizations may adopt a number of other pricing objectives. A university aims for *partial cost recovery,* knowing that it must rely on private gifts and public grants, to cover the remaining costs. A not-for-profit hospitals may aim for *full cost recovery* in its pricing. A not-for-profit theatre company may price its production to fill the maximum number of theatre seats. A social service agency may set a social pricing geared to the varying income situations of different clients.

## ⌗ Marketing Mix Strategy:

Price is only one of the marketing mix tools that a company uses to achieve its marketing objectives. Price decisions must be coordinated with product design, distribution, and promotion decisions to form a consistent and effective marketing program. Decisions made for other marketing mix variables may affect pricing decisions. For example, producers using many resellers who are expected to support and promote their products may have to build larger reseller margins into their prices. The decision to position the product on high-performance quality will mean that the seller must charge a higher price to cover higher cost.

## ⌗ Costs:

Costs set the floor for the price that the company can charge. The company wants to charge a price that both covers all its cost for producing, distributing, and selling the product and delivers a fair rate of return for its effort and risk. A company's costs may be an important element in its pricing strategy. Many companies, such as *Southwest Airlines, Wal-Mart, and Union Carbide,* work to become the **"low-cost producers"** in their industries. Companies with lower costs can set lower price that result in greater sales and profits.

## ⌗ Organizational Considerations:

Management must decide who within the organization should set prices. Companies handle pricing in a variety of ways. In small companies, prices are often set by top management rather then by the marketing or sales departments. In large companies, price is typically handled by divisional or product line managers. In industrial markets, salespeople may be allowed to negotiate with customers with a certain price ranges. Even so, top management sets the pricing objective and policies, and often approves the prices proposed by lower-level-management or salespeople.

In industries in which pricing is a key factor (aerospace, steel, railroad, oil companies), companies often have a pricing departments to set the best prices or help others in setting them. This department reports to the marketing department or top management. Others who have an influence on pricing include sales manager, production managers, fiancé managers and accountants.

## ⌗ External Factors Affecting Pricing Decisions:

External factors that affect pricing decisions include the nature of market and demand, competition, and other environmental factors.

## ⌗ The Market and Demand:

The seller's freedom varies with different types of markets. Economists recognize four types of markets, each presenting a different pricing challenge.

Under *pure competition,* the market consists of many buyers and sellers trading in a uniform commodity such as wheat, copper of financial securities. No single buyer or seller has much effect on the going market price. A seller cannot charge more than the going price, because buyers can obtain as much as they need at the going price.

Under *monopolistic competition,* the market consists of many buyers and sellers who trade over a range of prices rather than a single market price. A range of prices occurs because sellers can differentiate their offers to buyers. Either the physical product can be varied in quality, features, or style or the accompanying services can be varied. Buyers see differences in sellers' products and will pay different prices for them.

Under *oligopolistic competition,* the market consists of a few sellers who are highly sensitive to each other's pricing and marketing strategies. The product can be uniform (steel, aluminum) or non-uniform (computers, cars). There are few sellers because it is difficult for new sellers to enter the market. Each seller is alert to competitors' strategies and moves. If a steel company slashes its price by 10 percent, buyers will quickly switch to this supplier.

In a *pure monopoly,* the market consists of one seller. The seller may be a government monopoly (the US postal service), a private regulated monopoly (a power company), or a private non-regulated monopoly. Pricing is handled differently in each case. A government monopoly can pursue a variety of pricing objectives.

In a *regulated monopoly,* the government permits the company to set rates that will yield a "fair return", one that will let the company maintain and expand its competitors as needed. Nonregulated monopolies are free to price at what the market will bear. However, they do not always charge the full price for a number of reasons; a desire to attract competition, a desire to penetrate the marker faster with a low price, or a fear of government regulation.

## ⌗ Consumer Perception of Price and Value:

In the end, the consumer will decide whether a product's price is right. Pricing decisions, like other marketing mix decisions, must be buyer-oriented. When consumers buy a product, they exchange something of value (the price) to get something of value (the benefits of having or using the product). Effective, buyer-oriented pricing involves understanding how much value consumers place on the benefits they receive from the product and setting a price that fits this value.

## ⌗ Competitors' Costs, Prices, and offers:

Another external factor affecting the company's pricing decisions is competitors' cost and prices and possible competitor reactions to the company's own pricing moves. A consumer who is considering the purchase of a Canon camera will evaluate Canon's price and value against the prices and values of comparable products made by *Nikon, Minolta, Pentax,* and others. If canon follows a high-price, high -margin strategy, it may attract competition. A low-price, low-margin strategy, however, may stop competitors or drive them out of the market.

**Canon** needs to *benchmark* its costs against its competitors' costs to learn whether it is operating at a cost advantage or disadvantage. It also needs to learn the price and quality of each competitor's offer. Once canon is aware of competitors' price and offers, it can use them as starting point for its pricing. If Canon's cameras are similar to Nikon's, it will have to price close to Nikon or lose sales. If Canon's cameras are not as good as Nikon's, the firm will not be able to charge as much. If Canon's products are better than Nikon's, it can charge more. Basically, Canon will use price to position its offer to the competition.

## ⌗ Other External Factors:

When setting prices, the company also must consider other factors in its external environment. *Economic conditions* can have a strong impact on the firm's pricing strategies. Economic factors such as ***boom or recession, inflation, and interest rates*** affect pricing decisions because they affect both the cost of producing a product and consumer perception of the product's price and value. The company must also consider what impact its prices will have on other parties in its environment. How will *reseller* react to various prices? The company should set prices that give resellers a fair profit, encourage their support, and help them to sell the product effectively. The *government* is another important external influence on pricing decisions. Finally, *social concerns* may have to be taken into account. In setting prices, a company's short-term sales, market share, and profit goals may have to be tempered by broader social considerations.

## General Pricing Approaches:

The price the company charges will be somewhere between one that is too low to produce a profit and one that is too high to produce demand. Product costs set a floor to the price; consumer perceptions of the product's value set the ceiling. The company must consider competitors' prices, and other external and internal factors to find the best price between these two extremes.

Companies set prices by selecting a general pricing approach that includes one or more of these three set of factors. **The three approaches are: the cost based approach cost-plus pricing, break- even analysis, and target profit pricing), the buyer based approach (value- based approach), and the competition based pricing.**

## Cost-Based pricing:

The simplest method is cost-plus pricing-adding a standard markup to the cost of the product. Construction companies, for example, submit job bids by estimating the total project cost and adding a standard markup for profit.

To illustrate mark up pricing, suppose a toaster manufacturer has the following costs and expected sales:

**Variable cost: $10, Fixed costs: $ 300,000, and Expected unit sales: 50,000**

**Here unit cost is $16= Variable cost +Fixed cost / unit sales.**

Now suppose the manufacturer wants to earn *a 20 percen*t mark up on sales. The manufacturer's mark up price is given by:

**Markup price= unit cost / 1- Desired Return on Sales = $16/ 1-.2= $ 20**

## Break-Even Analysis and Target Profit Pricing:

Another cost-oriented pricing approach is break-even or a variation called target profit pricing. The firm tries to determine the price at which it will break even or make the target profit it is seeking.

**Break-Even Volume: Fixed cost /selling price- variable cost.** If a company has fixed cost of $ 30,000 and Variable cost $ 10 and selling price per unit is $ 20, then its **Break-Even Volume is= $ 30,000/$20-$10= $ 30,000**.

The company's sales must be above Break-even sales to earn a profit.

- **Value-Based Pricing:** An increasing number of companies are basing their prices on the product's perceived value. Value-based pricing use buyers' perception of values, not the seller's cost, as the key to pricing.

**Cost -based pricing:**
**Product------------- Cost---------------Price--------------------Value------------customers.**

**Value-based Pricing:**

**Customers------------Value-------------------Price---------------Cost-----------------Product.**

## Competition-Based pricing:

Consumers will base their judgment of a product's value on the prices that competitors charge for similar products. One form of competition-based is *going –rate pricing*, in which a firm base its pricing largely on competitors' prices, with less attention to its own costs or to demand.

Competition-based pricing is also used *bids* for jobs. Using *sealed –bid pricing*, a firm bases its price on how it thinks competitors will price rather on its own cost or on the demand. The firm wants to win a contract, and winning the contract requires pricing less than other firms.

## Pricing Strategies:

### New- Product Pricing Strategies:

Pricing strategies usually change as the market passes through its life cycle. The introductory stage is especially challenging. Companies bringing out a new product face the challenge of setting prices for the first time. They can choose between two broad strategies: Market-skimming pricing and market -penetration pricing.

Market-skimming pricing: many companies that invent new product initially set high prices to "skim" revenues layer by layer from the market. Sony frequently uses this strategy, called market-skimming pricing. When Sony introduced the world's first high-definition (HDTV) to the Japanese market in 1990, the high-tech set costs $ 43,000. In 1993, a 28 inch HDTV by only $ 6,000 and in 2001 a 40-inch HDTV was sold only for $ 2,000.

⌗ **Market –Penetration Pricing:**

Companies who try penetrating a market normally adopt the market penetration pricing. They set a low initial price in order to penetrate the market quickly and deeply- to attract a large number of buyers quickly and win a large, market share. Companies like Dell used penetration pricing to enter the highly competitive market.

## ⌗ Product Mix Pricing Strategies:

The strategy for setting a product's price often has to be changed when the product is part of a product mix. In this case, the firm looks for a set of prices that maximizes the profits on the total product mix. Pricing is difficult because the various related demand and costs and face different degrees of competition. We now take a closer look at five product mix pricing actions: product line pricing, optional-product pricing, captive-product pricing, by-product pricing, and product bundle pricing.

⌗ **Product Line Pricing:** Setting the price steps between various products in a product line based on cost differences between the products, customer evaluation of different features, and competitors' prices. SONY sets different pricing for different models of TVs, DVDs.

⌗ **Optional-Product Pricing:** The pricing of optional or accessory products along with a main product. The original product is offered with an optional product with some special price.

⌗ **Captive-Product Pricing:** Setting a price for products that must be used along with a main product such as blades for a razor, and a film for a camera. The original product is offered at as low as possible and charges a premium price for the captive product. Gillette sells low priced razors but makes money on the replacement cartridge.

⌗ **By-Product Pricing:** Setting a price for by –products in order to make the main product's price more competitive. In producing processed meats, petroleum products, chemicals and other products, there are often by-products. The company can charge a price of these by-products that allow the firm to cover the storing and delivering costs and this certainly gives the firm a competitive advantage in selling the original product.

⌗ **Product Bundle Pricing:** Using product bundle pricing, sellers often combines several of their products and offer the bundle at a reduced price. Thus, theaters and sports teams sell season tickets at less than the cost of single tickets, hotels sell specially priced packages that include room, meals, and entertainment.

## ⌗ Table Showing Product Mix Pricing Strategies

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**Strategy** **Description**

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- **Product Line pricing** – Setting prices between production liner items
- **Optional-product pricing** – Pricing optional or accessory products sold with the main product
- **Captive-product pricing** – Pricing products that must be used with the main product
- **By-product pricing** – Pricing low-value by-products to get rid of them
- **Product bundle pricing** – Pricing bundles of products sold together

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## Price Adjustment Strategies:

Companies usually adjust their basic prices to account for various customer differences and changing situations. Here is six price adjustment strategies: discount and allowance pricing, segmented pricing, promotional pricing, geographical pricing, and international pricing.

### Discount and Allowance Pricing:

A straight reduction in price on purchases during a stated period of time. A *cash discount,* a price reduction to buyers who pay their bills promptly. A typical example is, " **2/10, net 30,"** which means that although payment is due within 30 days, the buyer can deduct 2 percent bill if the bill is paid within 10 days.

A *quantity discount* is a price reduction to buyers who buy large volumes. A typical example might be " $ 10 per unit for less than 100 units, $ 9 per unit for volume for 100 or more units."

A *functional discount* (also called a *trade discount*) is offered by the sellers to trade-channel members who perform certain functions, such as selling, storing, record keeping.

A *seasonal discount* is a price reduction to buyers who buy merchandise or services out of season. For example, lawn and garden equipment manufacturers offer seasonal discounts to retailers during the fall and winter months to encourage early ordering in anticipation of the heavy spring and summer selling seasons.

*Allowances* are another type of reduction from the list price. For example, trade-allowances are price reduction given for turning in an old item when buying a new one.

## Segmented Pricing:

Companies will often adjust their basic prices to allow for differences in customers, products and locations. In *segmented pricing,* the company sells a product or service at two or more prices, even though the difference in prices is not based on difference costs.
Segmented pricing takes several forms. Under customer-segment pricing, different customers pay different prices for the same product or service. For example, people who buy the product of a particular company through CREDIT CARD (VISA) may get a special discount. Under product-form pricing, different versions of the product are priced differently but not according differences in their costs. Using a location pricing, a

company charges different prices for different locations, even though the cost of offering each location the same. Universities offer different pricing for students outside the host. Country.

## ⌗ Psychological Pricing:

A pricing approach that considers the psychology of the prices and not simply the economics; the price is used to say something about the product. In buying a product that is highly psychological, price is considered to be the most important factor for buying or not buying the company's product. When a company reduces the price, customer will hesitate to have a product of their preference.

⌗ **Reference Prices:** Prices that buyers carry in their minds and refer to when they look at a given product.

⌗ **Promotional Pricing:** With promotional pricing, companies will temporarily price their products below list price and sometimes even below cost to create buying excitement and urgency. Promotional pricing takes several forms. A loss leader is to attract customers to the store in the hop e that they will buy other items at normal markups. Special -event pricing in certain seasons to draw more customers. Thus, Linens are promotionally priced every January to attract weary shoppers back into stores.

## ⌗ Geographical Pricing:

A company must also decide how to price its products for customers located in different parts of the country or world. *FOB-origin pricing*- a geographical pricing strategy in which goods are placed on board a carrier, the customers pays the freight from the factory to destinations. Customers pay the freight depending on their locations.

⌗ **Uniform-delivered pricing**: A geographical pricing strategy in which the company charges same price plus freight to all customers, regardless of their locations.

⌗ **Zone Pricing:** A geographical pricing strategy in which the company sets up two or more zones. All customers within a zone pay the same total price; the more distance the zone, the higher the price.

⌗ **Basing-point pricing:** A geographical pricing strategy in which the seller designates some city as basing point and charges all customers the freight cost from that city to customer.

⌗ **Freight- absorption pricing:** A geographical pricing strategy in which the seller absorbs all or part of the freight charges in order to get the desired business.

## ⌗ International Pricing:

Companies that market their products intentionally must decide what prices to charge in the different countries in which they operate. In some cases, a company can set a uniform worldwide price. For example, Boeing sells its jetliners at about the same price everywhere, whether in the United States, Europe, or a third-world country.

The price that a company should charge in a specific country depends on many factors, including economic conditions, competitive situations, laws and regulations, and development of the wholesaling and retailing system. Consumers' perceptions and preferences also may vary from country to country, calling for different prices. Or the company may have different marketing objectives in various world markets, which require changes in pricing strategy. For example, Panasonic might introduce a new product into a mature market in highly developed countries with the goal of quickly gaining mass-market share- this would call for a penetration-pricing strategy. In contrast, it might enter a less developed market by targeting smaller, less price sensitive segments; in this case, market-skimming pricing make sense.

## ⌗ What is Branding?

Perhaps the most distinctive skill of professional marketers is their ability to create, maintain, protect, and enhance brands of their products and services. **A brand is a name, term, sign, symbol, or design, or a combination of these, that identifies the maker or seller of a product or service.** Consumers view a brand ass an important part of a product, and branding can add value to a product. For example, most consumers would perceive a bottle of white Linen perfume as a high-quality, expensive product. But the same perfume in an unmarked bottle would likely be viewed as lower in quality, even if the fragrance were identical.

Branding has become so strong that today hardly anything goes unbranded. Salt is packaged into branded containers; common nuts and bolts are packaged with a distributor's label, and automobile parts-spark plugs, tires, filters-bear brand names that differ from those of the automakers. Even fruits, vegetables, and poultry are branded – *Sunkist oranges, Dole pineapples, Chiquita bananas, Fresh Express salad greens, and Perdue chickens*.

Branding helps buyers in many ways. Brand names help consumers identify products that might benefit them. Brands also tell the buyer something about product quality. Buyers who always buy the same brand know that they will get the same features, benefits, and quality each time they buy. Branding also gives the seller several advantages. The brand name becomes the basis on which a whole story can be built about a product's special qualities, the seller's brand name and trademark provide legal protection for unique product features that otherwise might be copied by competitors. And branding helps the seller to segment markets. For example, General Mills can offer Cheerios, Wheaties, Total, Kix, Lucky Charms, Trix, and many other cereal brands, not just one general product for all consumers.

## ⌗ What is Brand Equity?

Brands vary in the amount of power and value they have in the marketplace. A powerful brand has high brand equity. **Brand equity** is the positive differential effect that knowing the brand name has on customer response to the product or service. A measure of brand's equity is the extent to which customers are willing to pay more for the brand. One study found that 72 percent of customers would pay 20 percent premium for their brand of choice relative to the closest competing brand; 40 percent said they would pay 50 percent premium. Tide and Heinz lovers are willing to pay 100 percent premium

A brand with strong brand equity is a very valuable asset. *Brand Valuation* is the process of estimating the total financial value of a brand. Measuring such value is difficult. However, according to one estimate, the brand value of Coca-Cola is $ 69 billion, Microsoft is $65 billion, and IBM is $ 53 billion. "Brand equity has emerged over the past few years as key strategic asset," observes a brand consultant. **"CEOs in many industries now see their brands as a source of control and a way to build stronger relationship with customers."**

## ⌗ Building Strong Brands:

Branding poses challenging decisions to the market. The major brand strategy decisions involve *brand positioning, brand name selection, brand sponsorship, and brand development*.

## ⌗ **Brand Positioning:**

Marketers need to position their brands clearly in target customers' minds. They can position brands at any of *three levels*. At the lowest level, they can position the brand on product attributes. Thus, makers of Dove soap can talk about the product's attributes of one-quarter cleansing cream. However, attributes are the least desirable level for brand positioning. Competitors can easily copy attributes. More important, customers are not interested in attributes such as they are interested in what the attributes will do for them.

A brand can be better positioned by associating its name with a desirable benefit. Thus, Dove marketers can go beyond the brand's cleansing cream and talk about the resulting benefit of softer skin. Some successful brands positioned on benefits are Volvo (safety), Hallmark (caring), Harley-Davidson (adventure), FedEx (guaranteed overnight delivery) Nike (performance), and Lexus (quality).

The strongest brands go beyond attribute or positioning. They are positioned on strong *beliefs and values*. These brands pack an emotional wallop. Thus, Dove's marketers can talk not just about cleansing cream attributes and softer skins, but about how these make you more attractive. Brand expert Marc Gobe argues that successful brands must engage *customers on a deeper level, touching universal emotion.*

When positioning a brand, the marketer, should establish a *mission* for the brand and a *vision* of what the brand must be and do. A brand is the company's promise to deliver a specific set of features, benefits, services, and experiences consistently to the buyers.

## ⌗ Brand Name Selection:

A good name can add greatly to a product's success. However, finding the best brand name is a difficult task. It begins with a careful review of the product and its benefits, the target market, and proposed marketing strategies.

Desirable qualities for a brand name include the following: **1) It should suggest something about the product's benefits and qualities, 2) It should be easy to pronounce, recognize, and remember. Short names help.3) It should be distinctive 4) It should be extendable. 5) The name should translate easily into foreign language, 6) It should be capable of registration and legal protection.**

## ⌗ Brand Sponsorship:

A manufacturer has four sponsorship options. The product may be launched as manufacturer's brand (or national brand) or by private brand (also called a store brand or distributor brand) where the manufacturer sell their products to resellers or it may be placed by licensed brands and finally by co-brand where tow companies jointly market a product.

## ⌗ Brand Development:

A company has four choices when it comes to developing brands. It can introduce line extensions (existing brand names extended to new forms, size, and flavor of an existing product category), brand extensions (existing brand names extended to new product categories), multibrands (new brand names introduced in the same product category), or new brands (new brand names in new product categories).

### ⌗ Line Extensions:

Line extensions occur when a company introduces additional items in a given product category under the same brand name, such as new flavors, forms, colors, ingredients, or package size).

### ⌗ Brand Extensions:

A brand extension involves the use of a successful brand name to launch new or modified products in a category.

### ⌗ Multibrands:

Companies often introduce additional brands in the same category. Thus, P&G markets many different brands in each of its product categories. Multibranding offers a way to establish different features and appeal to different buying motives.

### ⌗ New Brand:

A company may create a new brand name when it enters a new product category for which none of the company's current brand name is appropriate.

## ⌗ What is Packaging?

Packaging involves designing and producing the container or wrapper for a product. The package includes a product's primary container (the tube holding Colgate Total toothpaste). It may also include a secondary package that is thrown away when the product is about to be used (the cardboard box containing the tube of Colgate). Finally, it can include a shipping package necessary to store, identify, and ship the product. (A corrugated box carrying six dozens of tubes of Colgate). Labeling- printed information appearing on or with the package-is also part of packaging.

Developing a good package for a new product requires making many decisions. First, the company must establish the *packaging concept*, which states what the package should *be* or *do* for the product. Should it mainly offer product protect ion, introduce a new dispensing method, suggest certain qualities about the product, or do something else? Decisions then must be made on specific elements of these packages, such as size, shape, materials, color, text, and brand mark. These elements must work together to support the product's position and marketing strategy.

In recent years product safety has also become a major packaging concern. We have all learned to deal with hard-to-open "childproof" package. And after the rash of product tampering scares during the 1980s, most drug producers and food makers are now putting their products in tamper resistant package. In making packaging decisions, the company also must heed growing environmental concerns. Fortunately, many companies have gone "*green"* by reducing their packaging and using environmentally responsible packaging materials. For example, SC Johnson repackaged Agree Plus shampoo in a stand-up pouch using 80 percent less plastic. P&G eliminated outer cartons from its Secret and Sure deodorants, saving 3.4 million pounds of paperboard per year.

## ⌗ Labeling:

Labels may range from simple tags attached to products to complex graphs that are part of the package. They perform several functions. At the very least, the label *identifies* the product or brand, such as the name Sunkist stamped on oranges. The label might also *describe* several things about the product –who made it, where it was made, when it was made, its contents, how it is to be used, and how to use it safely. Finally, the label might *promote* the product through attractive graphics.

Labeling has been affected in recent times by unit pricing, open dating, and nutritional labeling. For example in Bangladesh the pharmaceutical companies must show the date of manufacturing, expiry date, batch number, unit price etc. in the labeling of the products.

## ⌗ The Marketing Communication Mix:

A company's marketing communication mix –also called its promotion mix-consists of the specific blend of advertising, sales promotion, public relations, personal selling, and direct marketing tools that the company uses to pursue its advertising and marketing objectives.

- **Advertising:** Any paid form of nonpersonal presentation and promotion of ideas, goods, or services by an identified sponsor.

- **Sales promotion:** Short-term incentives to encourage the purchase or sale of a product or service.

- **Public relation:** Building good relations with the company's various publics by obtaining favorable publicity, building up a good corporate image, and handling or heading off unfavorable rumors, stories, and events.

- **Direct marketing:** Direct connections with carefully targeted individual consumers to both obtain an immediate response and cultivate lasting customer relationships-the use of telephone, mail, fax, the Internet and other tools to communicate directly with specific consumers.

## Setting Total Promotion Budget and Mix:

### Setting the Total Promotion Budget

One of the hardest marketing decisions facing a company is how much to spend on promotion. The companies for setting their total promotion budget normally use four methods and these are: the affordable method, the percentage-of-sales method, the competitive-parity method, and the objectives-and-task method.

### Affordable Method:

Small companies normally use this easy method. The management of the companies decides as much amount as the company can afford for its total promotion. They start with total revenues, deduct operating expenses and capital outlays, and then devote some portion of the remaining funds for promotion.

### Percentage-of-Sales Method:

Other companies use the percentage-of-sales method, setting their promotion budget at a certain percentage of current or forecasted sales. Or they budget of the unit sales price. Foe example, a company may set its total promotion budget as 10 percent of the total sales revenue.

### Competitive-Parity Method:

In competitive parity method the company set their promotion budgets to match with that of its competitors. They try to obtain information of their competitors' budget from competitors' publications, or from trade association, and then set their budgets based on the industry average.

⌗ **Objectives-and-Task Method**:

The most logical budget setting method is the objectives-and-task method, whereby the company sets its promotion budget based on what it wants to accomplish with promotion. This budgeting method entails 1) defining specific promotion objectives, 2) determining the tasks needed to achieve these objectives and 3) estimating the cost of performing these tasks. The sum of these costs is the proposed promotion budget.