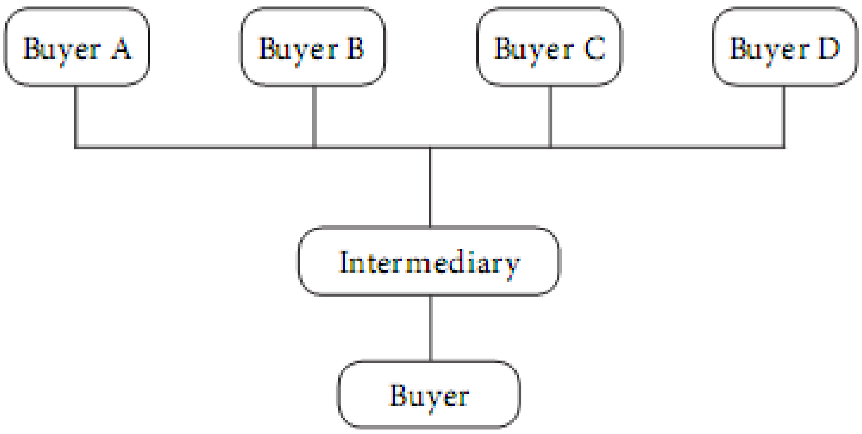
Accumulating Bulk

At times the intermediaries also do the task of accumulating the bulk. The intermediaries may buy bulk from different small producers accumulate them and offer to those buyers who prefer large quantities. The intermediaries in accumulating the bulk are mostly found in the agricultural businesses, whereby the intermediary will procure vegetables from local farmers and assemble them and sell it to the wholesalers. Exhibit 4.3 gives a clear picture on accumulating bulk. Once the marketers accumulate bulk they start to sort the products identifying differences in the quality, grades and classify them into different categories

4.3 Bulk-accumulating Function



Adapted from William Zikmund &Michael d'Amico, Marketing Seventh Edition

Creating Assortments

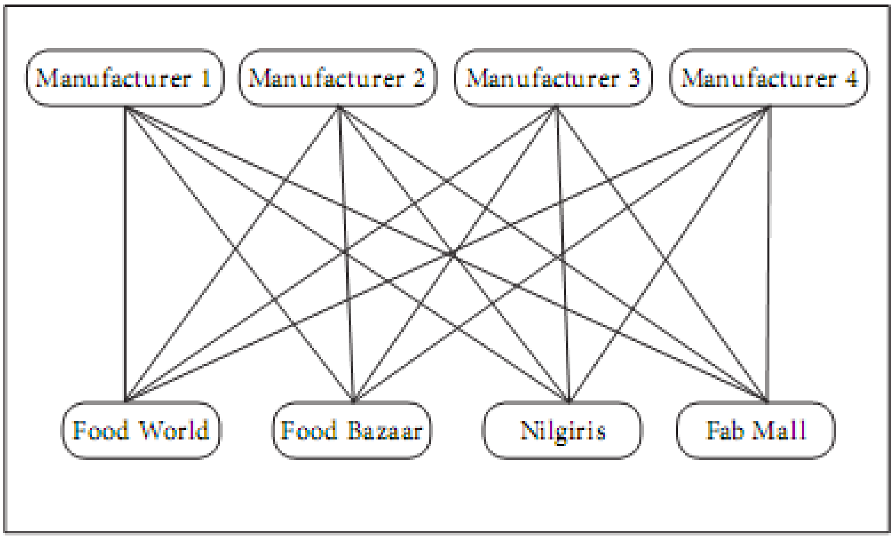
The third important function of the intermediaries is creating assortment. When we take the case of magazines, on an average there are around thousands of magazines being published in a month and it is impossible for a particular newsstand to get it going, here big distributors and agents work in creating assortments and enable a speedy process. This needs a lot of teamwork and timing. Certain magazines become outdated within certain period of time.

Reducing Transactions

One of the biggest reasons that keep the economy moving and the customer smiling is the presence of intermediaries, they reduce the number of transactions necessary to accomplish the exchange of goods. Exhibit 4.4 shows the complicated nature of the transaction if an intermediary does not come in place

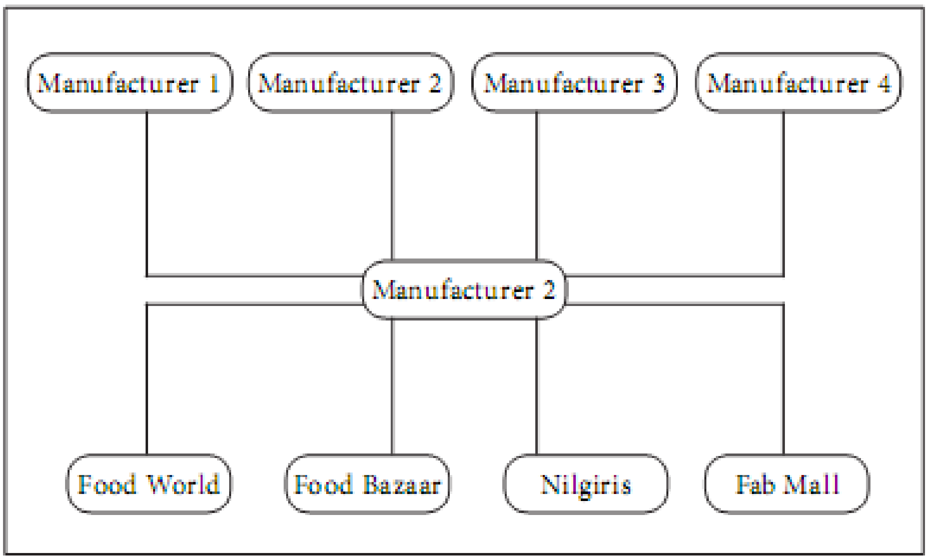
4.4 Transaction without an intermediary

In the above exhibit, we find that it becomes a complicated process for the manufacturers to work on with different retailers, when a intermediary comes in the form of a wholesaler we find the whole situation becomes different. Intermediaries do not only reduce the number of transactions but also help in the reduction of the geographical distances that both buyers and sellers have to cover.



Channel intermediaries doing the roles of a buying agent for their customer and selling agents for the manufacturers does simplify the process of transaction considerably From exhibit 4.5, we find the reduction in the number of transactions that happen between the manufacturer and the retailer.

4.5 Reduction of transactions by an intermediary



Transporting and Storing

Apart from breaking, accumulating, creating assortments and reducing transactions they also perform two key marketing functions namely transporting and storing. The final product has to be moved from the point of production to the point of consumption. This means it involves storing the product along the way till it is delivered. Most of the big retailers hold enough of the product in order to cater to the consumers

Credit Services

Apart from the function of physical distribution the intermediaries also help in offering credit services. Even though there are firms like Metro, which are predominantly cash and carry kind of intermediaries, most of the intermediaries provide credit facility or even paying in parts. Many intermediaries offer about 30 to 45 days to the retailers for paying back.

Risk Taking

one of the vital functions of the intermediaries is risk taking. Not every product finds favor in the eyes of the customer, much fallout within few months, as a result of which the intermediaries would be at risk. An uncontrollable factor like floods, earthquakes or even contamination or fire could pose a serious threat. The intermediaries have to bear these risks along with the market risks. These are some of the core functions intermediaries perform enabling goods and services to reach consumers at the right time

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Lesson 4.2 - Structure and Design of Marketing Channels

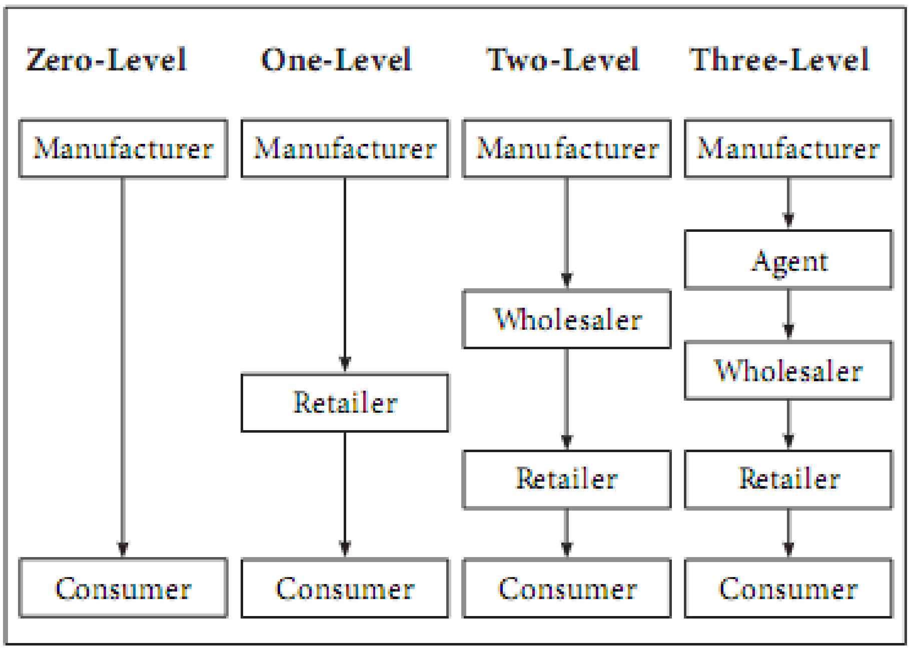
At the end of the chapter, you will be familiar with

- Marketing channel structure and its levels
- Channel structure in consumer and industrial markets
- Designing distribution channels
- Channel dynamics
- Channel conflicts

Channel Structure

Channel structure is distinguished on the basis of the number of intermediaries. There are different levels in a channel structure. The common levels are zero-level, one-level, two-level, three-level. Each level presents both opportunities and challenges for the marketer. Exhibit 4.6 gives a picture of the different levels

4.6 Typical channel structure for Consumer Goods



Zero-level

structure is one of the simplest forms of the channel structure. Here organizations like Avon, Eureka Forbes use direct selling mode to take the products from their production houses to the consumers directly. A lot of money has to be spent in order to make this channel structure effective, as there is no third party to take your product to the consumer. Even a bakery can come as a firm, which bakes cakes and sells it directly to the consumers. Marketers who use the mailing services, toll-free numbers are also using this service.

One-level

structure is one in which we have one intermediary acting as a link between the manufacturer and the consumer. Here the retailers procure goods directly from the manufacturer and supply it to the consumers. Retailers like Viveks, Wal-Mart deal directly with the manufacturer. In some cases in order to retain profitable and reputed retailers the manufacturers act as wholesalers. One of the advantages for the intermediaries is the customization and the discounts they receive.

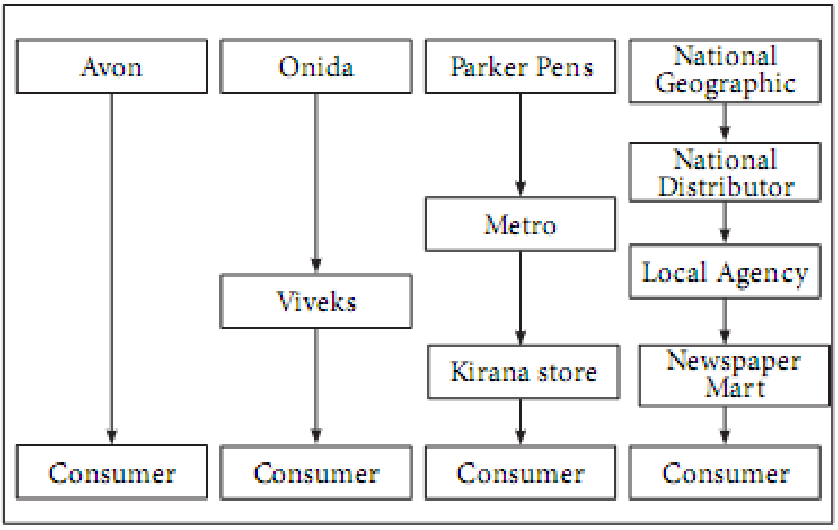
Two-level

channel has two people interceding before the product reaches the consumer. Here there would be a wholesaler and a retailer who takes the efforts for a speedy delivery and this is one of the most commonly used structures for consumer goods. In the case of Metro, most of the small retail and Kirana stores buy all the merchandise from Metro and in urn sell them to the consumer. One of the advantages of the four-level structure is the benefit of using the wholesaler in the distribution of services.

Three-level

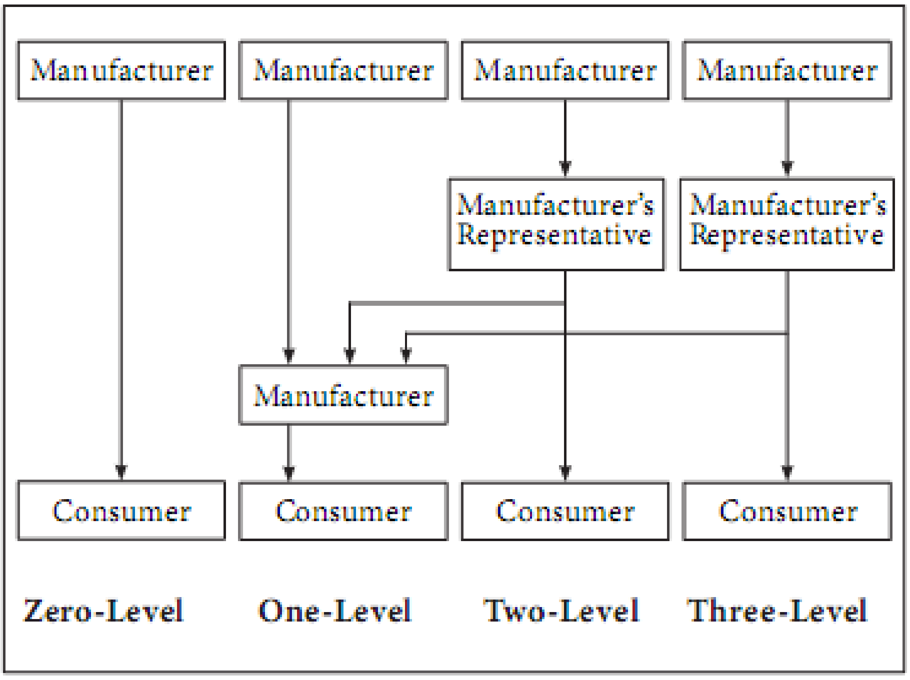
channel happens predominantly when the firms plans to go global. When a manufacturer enters another country, it always holds good when he uses the help of agents to operate in that environment. The agents are people who know the legal procedures and who can negotiate with the host country in case of a problem. Most of the airline firms that operate in different countries take the help of agents to penetrate the market

4.7 Example of Consumer Markets



When it comes for Business-to-Business operations, the channels differ from the consumer markets, in this structure, firms predominantly may use their existing sales force to sell the products to the customers, they may even use industrial distributors to take their products to the industrial customers. Exhibit 4.8 details the Business-to-Business model of channel structure

4.8 B2B Marketing Channels



Mark Andy is one of the big names in the printing machines industry. In India Mark Andy supplies its printing machines to the industrial customers through Heidelberg, an industrial distributor. It also has its own representatives who pitch in when the customer needs information. In case of Industrial Channel, the zero-level, one-level and two-level are the most commonly used method. When it comes for Business-to-Business channels agents become the integral point of the whole process, since the characteristic of the business-to-business market is oligopolistic and are huge buyers.

In this digital economy, a shift has started in the channels on either side of the markets i.e. in both the consumer marketing channels and the business-to-business market channels. The web has created a platform whereby organizations can now directly communicate with the customers, as a result of which many of the channels are being disintermediated. This disintermediation does not necessarily mean that they completely eliminate the intermediaries, but rather when it comes to shipping the products it may outsource some of the distribution functions like the storage, transportation from third party firms.

Designing Distribution Channels

Channel design refers to those decisions that involve in the development of new marketing channels or modifying the existent ones. The channel design decision can be broken down into six steps namely:

1. Recognizing the need for channel design decision
2. Setting and coordinating distribution objectives
3. Specify the distribution tasks
4. Develop alternative channel structures
5. Evaluate relevant variables
6. Choose the best channel structure

1.Recognizing the need for a channel design decision

First and foremost task for the organization is to recognize the need for a channel design. An organization would go in for a new channel design for the following reasons namely

- When a new product or product line is developed, mainly when the existing channels are not suitable for the new line
- When the existing product is targeted to a different target market. This is common when an organization is used to catering the B2B, plans to enter the consumer market

  - When there is a change in the marketing mix elements, when an organization reduces its prices on certain offering the channel worked out will be based on the price points, they may look in for discounters
  - When facing major environmental changes namely in economic or technological or in legal spheres.
  - Finally when the organization opens up new geographic marketing areas

The list by no means is comprehensive, but gives a picture about some of the most common conditions when channel design decisions are worked out.

2.Setting and Coordinating Distribution Objectives

Once a need for a design is recognized the next task for the channel manager is to work out to develop the channel structure, either form the scratch or by modifying the existing one. It is necessary for the channel manager to carefully evaluate the firm's distribution objectives. In order for the distribution objectives to be effective and well coordinated the channel manager need to perform three tasks namely

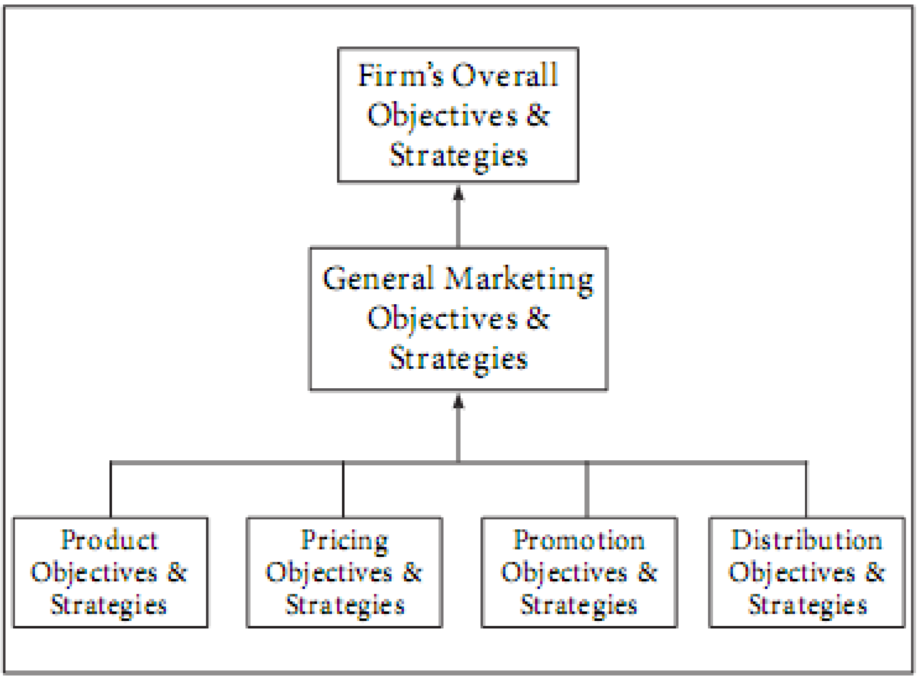
- Become familiar with the objectives and strategies in other marketing mix areas and other relevant objectives and strategies of the firm. In most cases the person or the group that sets the objectives of the other marketing mix elements will also set the objectives for distribution as well.

- Set the objectives and state them explicitly. A good objective is one, which is clear, and explicit, and has a greater role in achieving the firm's overall objectives. Some examples of a good distribution objectives are as follows.

- Apple Computers set a distribution objective to reach more consumers with what it refers to as the 'Apple experience'. So, Apple reinvigorated and reestablished relationships with large retail chains, which it had neglected in recent years .

- In the same way Coca-Cola seeks to broaden its penetration in schools and college markets, as a result of which it has entered into contact with many schools and colleges, whereby these institutions would sell only Coca-Cola products on their campuses.

- Check and see if the distribution objectives set are congruent with marketing and other general objectives and strategies of the firm. This involves verifying if the distribution objectives do not conflict with the objectives in the other areas of marketing mix or even to the overall objectives of the company. In order to cross check, it is essential to examine the interrelationships and hierarchy of the objectives of the firms. Exhibit 4.9 gives a clear picture of the same



3.Specifying the Distribution Tasks

Once the objectives are formulated, a number of functions need to be performed in order for the distribution objectives to be met. The manager therefore has to specify the nature of the tasks that needs to be carried out in order to meet the objectives. The tasks need to be precisely stated so that it meets the specified distribution objectives. For e.g. a manufacturer of a consumer product, say a high quality cricket bats aimed at serious amateur cricket players would need to specify distribution tasks such as gathering info on target markets shopping patterns, promote product availability to the target, maintain inventory, and timely availability, compile info about the product features, provide hands on experience using the product, process and fill customers orders, transport the product, arrange for credit provisions, provide warranty, provide repair and service, establish product return to make the offering readily available. Sometimes these functions may appear to be production oriented rather than distribution tasks, but when we talking about meeting customers, they are indeed distribution tasks.

4.Developing Possible Alternative Channel Structures

Once the tasks have been specified by the channel manager he should find out alternate ways of allocating these tasks. In most cases the channel manager chooses from more than one channel to reach the consumer effectively. Britannia would sell their biscuits thorough wholesale food distributor, departmental stores, convenience stores and even in pharmacies. Whatever may be the channel structure, the allocation alternatives should be in terms of (a) the number of levels in the channel (b) the intensity at various levels, and (c) the types of intermediaries.

The number of levels can be from two level upto five levels. The channel manager can think of going for a direct way of meeting the customers to using two intermediaries as an appropriate way. Intensity refers to the number of intermediaries at each level.

Generally the intensities can be classified into three categories namely intensive, selective and exclusive. Intensive saturation means as many outlets as possible are used at each level of the channel. Selective means that not all possible intermediaries at a particular level are used. Exclusive refers to a very selective pattern of distribution.

A firm like Parle may use intensive distribution channel structure, while Rolex may use high degree of selectivity. The types of intermediaries, third component has to be carefully dealt. The firms should not overlook new types of intermediaries that have emerged in recent years particularly the auction firms such as baazee, bid or buy as possible sales outlet for their products.

41. (A) Activity

Would you use exclusive, selecting or intensive distribution for the following products?

- Maruti Automobiles
- MTR Food Products
- Samsung Electroinics

5.Evaluating the variables affecting Channel structure

Once the alternative structures have been outlined, each channel structure has to be evaluated on a number of variables. There are five basic categories namely,

Market variables - marketing management is based on the philosophy of marketing concept, which stresses on the consumers needs and wants, the managers have to take the cues from the market. The subcategories that have a greater influence on the market structure are market geography, market size, market density and market behavior

Product variables - some of the most important product variables are bulk and weight, perishability, unit value, degree of standardization, technical vs. non-technical and newness. Heavy and bulky products have a high handling and shipping costs relative to their value. The manufactures of such products have to keep in mind to ship in large lots to a fewer possible points.

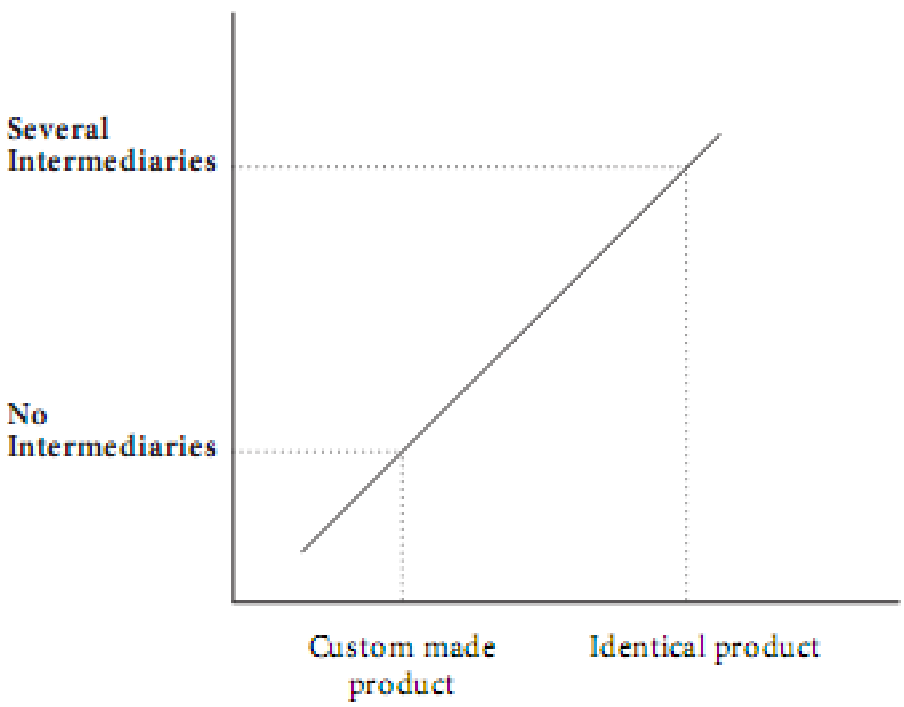
It would always be better if the channel structure remains short. Food products, flowers are considered to be highly perishable. When products are highly perishable, the channel structure should be designed to provide rapid delivery from producers to consumers. One important consideration is lower the unit value of a product, the longer the channels should be as low unit value leaves small margins for distribution costs.

Exhibit 4.10 explains the relationship between the degree of standardization and channel length. If the product flows directly from manufacturer or producer to the user the degree of customization is more, but as the product becomes more standardized it passes through many channels. Mostly the B2B machinery has a great degree of customization as it passes from the manufacturer to the industrial user, while many consumer market is predominantly a standardized one.

When it comes for the technical component, the industrial products are mostly distributed through direct channels because of the technical expertise and service while many technical consumer products do use shorter channel structure. When the product is new and is in the introductory stage in order to capitalize on the aggressive promotion, a shorter channel is preferred to gain awareness.

Exabit 4.10 Relationship between degree of standardization and channel length

Channel length



Degree of Satandardization

Company Variables

The important variables that affect a good channel design are size, financial capacity, managerial expertise and objectives and strategies. Larger the firms in terms of size it enables them to exercise a substantial amount of power in the channel. The size does give flexibility for the firm in picking the channel structures. The same hold true when it comes for the financial capability. Greater capital available with a firm, less dependency is seen on the intermediaries.

When a firm is into industrial marketing, it prefers to have its own sales force, warehousing, order processing capabilities and larger firms with good financial backing are better able to bear the high cost of these facilities. When a firm lacks quality managerial skills, a comprehensive channel structure ranging from wholesalers to brokers are needed to perform the distribution activity, once the firm gains experience it can change or reduce the number of intermediaries.

The objectives and strategies a firm has may limit the use of intermediaries. These strategies may emphasis on aggressive promotion and may even alter the distribution tasks. Overall this is one of the prime variables used for evaluating.

Intermediary Variables

The important intermediary variables are availability, costs and services offered. The availability is one of the key variables as this influences the channel structure.

If we take the case of Dell Computers, due to lack of a proper channel structure he designed a direct mail order channel, which provided a strong technical backup as well. The cost is another variable a channel manager considers. If the cost of using a particular intermediary is too high compared the services it offers the manager may consider in minimizing the use of intermediaries. The services performed by the intermediaries is another integral component, a good intermediary is one, which offers efficient services at the lowest cost.

Environmental Variables

The uncontrollable or the macro environmental forces may affect the different aspects of channel development and management. Forces like the Socio-cultural, economic, technological, legal forces have a significant impact on the channel structure. The other variables are those the organization can work upon or change to the situation but the environmental forces are those the organization has to cope up with.

6.Choosing the 'Best' Channel structure

In deciding the manager should choose an optimal channel structure that would offer desired level of effectiveness at the lowest possible cost. Even though there is not one set method to pick an optimal channel structure, it all depends on the orientation of the firm. If the goal of the firm were profit maximization, the channel structure would be in line with the goal. Most channel choices are still however made on the basis of managerial judgment and the data that is available.

Managing Channel Members And Their Conflicts

After a particular channel is selected, the marketer must manage or administer the channel members or intermediaries. Managing channel members include

a. Selecting intermediaries
b. Motivating channel members or middlemen
c. Controlling or managing channel conflicts, and
d. Evaluating performance of channel members

Selecting intermediaries

Selection of intermediaries or middlemen is a continuous process because some of them leave the channel or get terminated by the marketer. Hence it is not part of channel design. It is necessary for the marketer to determine criteria or factors for selection of intermediaries. These criteria differ depending on the type of middlemen and the firm's particular product/market conditions. Some of the common factors considered are financial standing, location, prior experience and type of customers served.

Motivating middlemen

The marketer must continuously motivate his intermediaries to achieve long-term success. Motivating the intermediaries to achieve top performance should start with understanding the middlemen's needs, perceptions and outlook. The quality of support from middlemen will depend on the motivational techniques used and incentives offered.

Controlling channel conflicts

Even though a manufacturer's channel design is well done, there will be some conflict because of the differences in the objectives and perceptions of the channel members. The conflicts or tensions between the channel members can damage channel performance. Marketers should periodically undertake surveys of intermediaries or conduct formal/ informal discussions with them to assess the areas or sources of conflicts. Some of the sources of conflict are indicated in Exhibit 4.11.

	Sources of conflict	**Examples**
1.	Differences in objectives	Manufacturers want long-term profitability but middlemen prefer short-term
2.	Dealings with customers	Middlemen feel cheated when the manufacturer deals with large customers and asks them to serve small customers
3.	Differences in interests	The manufacturer feels that the middlemen are not giving attention to the firm's products. The middlemen are interested in products that are fast moving or have higher margins for them

4.	Differences in perceptions	The manufacturer wants the middleman to carry a higher inventory due to the perception of good market conditions. The middleman does not share this optimism
5.	Compensation	Manufacturer's representatives (agents) feel that the commission percentage offered by the manufacturer is not adequate. The manufacturer thinks otherwise
6.	Unclear territory boundaries	The territory boundaries between middlemen are not clear, resulting in competition among the firm's intermediaries to secure business from the same customers

Exhibit 4.11 Sources of channel conflicts

The channel conflicts can be controlled or managed in several ways, including:

- Effective communication network
- Joint goal-setting
- Diplomacy
- Mediation
- Arbitration and
- Developing a vertical marketing system (which is described in the next section).

An effective communication network between the manufacturer and the intermediaries can be developed through periodic formal and informal meetings and co-optation of intermediaries in board of directors or advisory committees. In joint-goal setting, the channel members come to an agreement on the super-ordinate (or fundamental) goals they jointly seek.

Such goals can be market share leadership, customer satisfaction or product/service quality in a highly competitive market where survival and success of channel members depend on their performance and cooperation. The channel members may resort to diplomacy, mediation or arbitration, when conflicts are sharp. Diplomacy is used when the conflict is resolved through discussions between the persons from both the parties. In mediation a neutral third party tries to conciliate the interests of the two parties. In arbitration, both the parties present their arguments to a third party (i.e. the arbitrator) and agree to accept the arbitration decision.

Evaluating channel members

It is a good policy for the marketer to evaluate the performance of each channel member periodically. An evaluation is useful to know which intermediaries are achieving favourable results and which are not. The intermediaries not performing well need to be counseled, re-trained, re-motivated or terminated. An evaluation data can also be used while deciding which type of middlemen to be used. The factors or criteria to be used for an evaluation of middlemen's performance can include sales achieved versus sales quota, average inventory levels, customer delivery performance, customer complaints, cooperation in market feedback, support for new products and new customers generated.

Channel Dynamics

Like any other concept, channel systems do change according to the development and the need of the hour. With consumers becoming conscious of where they buy and how they want things to be delivered there has emerged different systems namely the vertical, horizontal and multichannel marketing systems.

The conventional or the traditional marketing channel encompasses a producer, one or few wholesalers and one or few retailers. The objective of theses different players is to see that they make enough profits, they are highly independent and don't have control over other channel members.

In contrast, the **Vertical Marketing System (VMS)** has the three members acting as one unified team, there is one channel member who owns the other members or allows franchising but ensures a greater role in the execution. Many organizations have started to operate in this format as strong channel members try to dictate terms for the producer as well as when they found the objectives of different channel members differ from that of the producer.

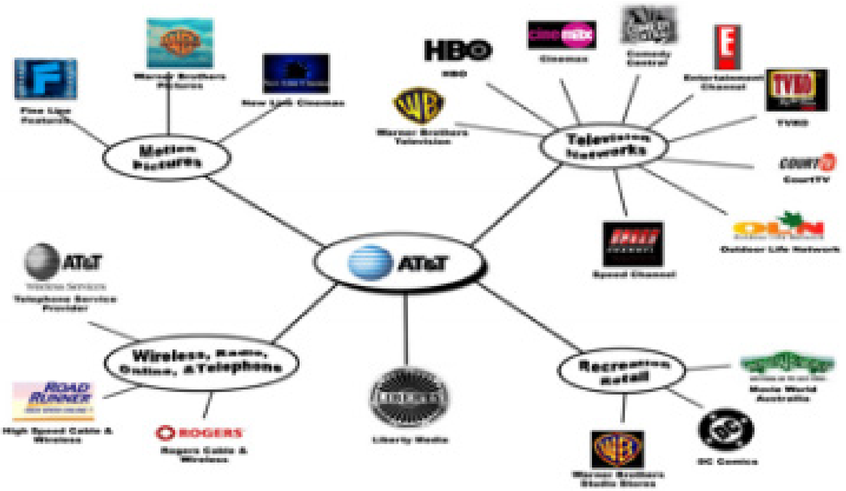
There are three variants of vertical marketing system namely corporate, administered and contractual vertical marketing system. In case of corporate the organization combines the production and the distribution under one roof. Organisations like Asian paints, Amul are not only involved in the production of the products but they also own a considerable no of outlets. An administered vertical marketing system coordinates the production and distribution efficiencies but use their size as a dominant influence.

HLL commands a greater shelf space or Samsung gets better displays in retail outlets purely because of their size and the reputation they carry with them. The third variant namely contractual vertical marketing system coordinates the activities of individual firms at different levels integrating their programs at contractual levels. Firms like McDonalds, KFC use this type of vertical marketing systems for the integration of their businesses.

The **Horizontal marketing systems** is one where two or more unrelated businesses come together pull in resources to exploit the emerging opportunities. Many private players especially banks have got into the act of tie-ups with retail stores or even with fuel outlets in order to gain greater market. ICICI bank has got tied with Big Bazaar, and this has greatly enhanced the reputation of both these firms as well as increasing the customer base respectively.

The **Multi-channel marketing systems** as the term simplifies it is one in which a firm uses multiple channels to reach different customer segments. In the present scenario most organizations have started to use multiple channel method because it helps in the expansion of the market coverage, it costs little when the target segment is small instead of using a bigger channel and mainly helps in customizing the offering according the need of the segments. Exhibit 4.12 gives an idea about the different products and AT & T uses different channels to reach out to different segments.

Exhibit 4.12 AT&T different products and segments



When distribution when goes overseas they are bound to face a lot of restraints and problems like the host country laws, the laws of the country to which the goods are shipped, the laws of the nations through which the goods pass must be abided by the company. Apart from this, other environmental factors do play an active role when considered from a macro-marketing perspective. In the next lesson, we deal with the role of retailers, wholesalers and logistics in this value chain and how do they facilitate the process of performing the channel function effectively

Case examples

Distribution of Tata's Agni

Tata Tea found that its market share in 2006 was 18 per cent and covering only 10,000 villages and about 30% of the urban population. It decided to strengthen the urban distribution network through its wholesalers and retailers and rural network through NGOs (Non -government Organizations). It signed MoUs (memorandum of understandings) with NGOs who act as main distributors at district level collecting various products form Tata Tea on credit before giving them to mobile rural distributor, also on credit, who would then supply to small rural retailers in villages, who in turn sold to consumers.

e-choupal of ITC

It is one of rural India's largest internet-based interventions, reaching out to some quarter million farmers in two thousand villages through 460 choupals in the states of Madhya Pradesh, Karnataka and Andhra Pradesh. The customization of the content to local requirements and in the local language has made it user friendly for the farmer.
Farmers can access latest local and global information on weather, scientific farming practices as well as market prices at the village itself through this web portal - all in Hindi. Choupal also facilitates supply of high quality farm inputs as well as purchase of commodities at their doorstep.

The total network already includes 1,286 kiosks, reaching almost a million farmers across some 9,000 villages. Enthusiasm from farmers is helping ITC to rapidly scale up its network. Current plans include diversification into a wider variety of crops in 11 other states across India. Expanding at a rate of 3 to 4 kiosks a day, the company expects to have 20,000 choupals covering 100,000 villages, or one sixth of rural India, within 10 years.

Each e-Choupal is managed by an ITC-appointed "Sanchalak", a respected farmer of the community. This reorganization of the role of middlemen results in lower procurement costs for ITC, despite having to pay higher prices to the farmers. Transaction costs are also minimized for the farmer by buying output at the farmers' doorstep, and through transparent pricing and weighing practices. A substantial quantity (120,000 MT of various commodities) has already been procured through this channel, resulting in overall savings over a million US dollars. The savings are shared between buyer (ITC) and seller (farmer). According to company officials, the average soya farmer saves US$ 5 per ton of beans when he sells through the e-Choupal network.

ITC, for its part, saves US$ 4 per ton, even after paying transportation costs. On the marketing front, ITC is able to maintain and grow the trust of its farmers by enhancing their productivity and wealth. ITC leverages this position of trust among farmers, as well as its distribution capabilities, to market its own consumer good brands and those of partner companies offering products and services that ITC does not. Sales of consumer goods through the e-Choupals have been particularly successful because the cost-savings associated with dealing directly with the manufacturer allow Sanchalaks to offer goods at lower prices than other village-level traders or retailers can afford to do.

Key Terms

- Contractual Organisation
- Horizontal Marketing Systems
- Retailers
- Atmospherics
- E-tailers
- Vertical Marketing Systems
- Multichannel Marketing Systems
- Specialty store
- Convenience Stores
- Wholesalers

Glossary of terms

Horizontal Marketing System- Two or more unrelated businesses come together pull in resources to exploit the emerging opportunities

Marketing channels - The external contactual organization that management operates to achieve its distribution objectives

Multichannel Marketing System- A firm uses multiple channels to reach different customer segments

One Level structure- one intermediary acting as a link between the manufacturer and the consumer

Three Level structures- Firms when they go global they use the help of agents to take their products to the wholesalers and then to the retailers before reaching the end consumer

Two level structure- two people interceding before the product reaches the consumer

Vertical Marketing System- members acting as one unified team, there is one channel member who owns the other members or allows franchising but ensures a greater role in the execution

Zero Level structure- the product is moves from the manufacturer directly to the consumer without any intermediary

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Lesson 4.3 - Retailers And Wholesalers

objectives

- To understand the concept of retailing
- Different Theories in Retailing
- Types of Retailers
- Retail strategy
- Wholesaling
- Types of Wholesalers

Introduction

Retailing is one of the largest sectors in the global economy. It employees almost 23 million people in United States alone, generating about $3 trillion in sales annually. About 50 organizations in the Fortune 500 are from the retail sector. Retail is one among the fastest growing industry. Consider Wal-Mart, the biggest retailer in the world with approximately $250 billion in sales was started in the early sixties, while Fortune came with its annual ranking of top 500 organizations in 1952, a year when nobody would have dreamt about Wal-Mart. In the early nineties for the first time Wal-Mart became the top organization according to Fortune Magazine, which it still continues to hold.

Retail is the buzzword today and this lesson explores the emerging retail scenario and the strategies available for different retail formats. Exhibit 4.2.1 shows that distribution of the product begins from the producer or the manufacturer and ends with the consumer, between them are the retailers who act as a link. The word 'retail' is derived from the French word retailer, meaning 'to cut a piece off' or 'to break bulk'.

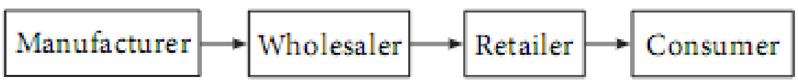

Exhibit 4.2.1 Distribution Channel

Wholesalers buy products from manufacturers and sell them to retailers while retailers take the product from wholesalers to the consumers. While the wholesalers try to satisfy the retailers, the retailers make all the effort in satisfying the needs of the consumers. Retailing has become an intrinsic part of our everyday lives that and this has been evident with the nations that have enjoyed the greatest economic and social progress have been those with a strong retail sector. Retailing encompasses selling through mail, the internet, door-to-door visits apart from brick and motor stores.

Indian Scenario

Retailing is the second largest industry in India next only to agriculture and contributes to about 11 percent of the GDP; it is likely that India will have about 220 shopping malls by 2006 up from 25 in 2003. The sector provides employment for 8% of the total workforce of the country. The sector is highly fragmented and is dominated by large traditional formats. Even though the total retail businesses are estimated at $180 billion only 2 percent comes from the organized sector. According to one of the sources, the size of the organized retail was estimated at about Rs 16,000 crores in 2002-03. India has the largest retail density in the world with 12 million retail outlets for a population of over 1000 million.

In the organized retail there are few big names like RPG's, viveks, Rahejas etc who dominate the market to a greater extent. From what was once considered a conservative and a traditional society India has emerged as the hot pot for every organization that even firms like Reliance, Mahindra's are planning to foray into retail.

According to the study conducted by the Euroconsumer study there has been an increase in the disposable income of the Indian middle class, apart from this the Indian middle and high income group is increasing by 10% annually over the last decade. Moreover the falling interest rates, easier consumer credits, varieties and different price points have all been credited to the booming retail market. The Urban customers have started to experience the western lifestyle, and they have become more demanding than ever before. Scenario has changed from what once was a forced way of buying has not led to the age where shopping is considered as an experience. The consumers are becoming highly knowledgeable and this in turn has had a positive effect on the consumers.

Drivers Of Change

- Changing Demographics- One of the biggest reasons for the growth of retail in India is the changing demographics. The number of middle-income class and the people in the age group 18-35 has been ever increasing and this has changed the consumer's preference. According to a world study India is considered as one of the youngest economies and this is helping in the growth of the sector.

- Emphasis on Convenience – With the ever-expanding cities and upcoming towns, people are becoming choosier with the things they buy and the places they shop. This has resulted in the emergence of new retail ventures trying to be niche in some area.

- Explosion of Knowledge and Technology- With the emergence of internet, people have become aware of what's happening in the other part of the world and this has led him in comparing the prices, assortment, ambience etc. To cope up with this knowledge explosion different retail formats have emerged and this has made shopping more of fun and a experiences.

- Added Experimentation- Back in the 1980s, people were highly loyal to the brands they bought and the outlets they shopped, but the present generation of consumers likes to experiment. Long back people never felt shopping for vegetables and groceries at retail outlets were a good idea, but things have changed and vegetable retailing has grown by 35 percent

Functions Of Retailing

Retailers perform four major activities in the value chain. They are:

1. Arranging assortment
2. Breaking bulk

3. Holding stock and,
4. Providing service

Each of these activities holds significance when the product gets transferred from the manufacturer or the wholesaler to the retailer. We will discuss about each of the activities in detail and their contribution in the value addition to the offering.

• Arranging Assortment- an assortment is a retailer's selection of merchandise and this includes the length and breadth of the products. The assortment may include substitutable items of the same brands with different price points. Making decisions on the assortments is one of the crucial elements for a retailer; a small retailer makes decisions based on the perceptions he holds for a particular product and by past experiences.

Those in the organized sector rely on future projections, past sales record and on detailed study on various factors that may affect the sales. Retailers need to consider other factors such as the store layout, the ambience, and merchandise mix to create an urge. Subhiksha one of the leading grocery and pharmaceutical chain in Tamil Nadu has an impressive assortment of only the fast moving brands and stock keeping units (SKU's) rather than all that is available, while Food World positions itself as a one stop shop as a result of which it holds multiple brands. Subhiksha works on its layout, price (value for money) as it's tool in reaching the consumer groups

In the News

Subiksha, the pharma and FMCG products retail chain in Chennai, uses price discounting as a major unique selling proposition. Subiksha offers a 10 per cent discount on the 'maximum retail price' of all products it sells. Foodworld and Vitan, both South-based, have also started offering sales promos and discounts on select products' MRPs

Source: www.etretailbiz.com

• Breaking Bulk- another activity that retailers perform is breaking bulk. Breaking bulk means physical repacking of the products by the retailers in small unit sizes according to the customer's requirement and convenience. The retailers procure goods from the wholesalers in large quantities in order to reduce transportation costs and time. They further break the products or arrange them into convenient units. The entire operation not only adds value to the end user but also send a positive word of mouth about the manufacturer or the supplier. This particular function is losing its prominence due to the advent of the different categories like the ready to wear segment.

In the News

With big brands from textile companies growing weary in adapting to the fast-paced changing scenario in the ready-to-wear industry, it's the small brands, including private labels that are completely transforming the way men, women and children dress. A whole bunch of players have plunged into this branded ready-to-wear business. According to current KSA Technopak reports, the branded ready-to-wear segment contributes 21% to the apparel sector. And the present total market size of the ready-to-wear segment is pegged at around Rs 40,000 - 45,000 crore

- Holding Stock

The third activity retailers perform is holding stock. Retailers maintain appropriate levels of inventory. In the current scenario holding stock has got its own positives and negatives. Retailers have to face a negative consequence for holding unwanted stocks while at the same time keeping low stocks may affect the business. Based on the size of the retailer inventory decisions are worked. A large retailer uses specialized software's for maintaining inventory levels while small retailers use day to day transactions as a yardstick in maintaining the inventory

- Extending Service

The service the retailer's offer is more than just the core product. It may be an add-on to the core product itself. The add-ons may be the credit facility they may provide, after sales service or even providing information about the latest products to the customers. For the suppliers the retailers may provide with information pertaining to the trends in the market, information about a particular target group and even provide storing facility.

Time zone, a part of the Titan group were the one of the pioneers in organized sector to some up with specialized people who were trained in handling any complexities in the instrument.

Activity

Visit a near by Kirana store and a departmental store, try to find out what different activities the retailers provide for the customers and the suppliers. Discuss your findings in a group. Check if you can find more

Theories In Retail

Like every other industry new retail firms have brought innovative approaches in retailing. Retail development can be looked at from different theoretical perspective, as no one theory is universally acceptable. The reason for this unacceptability is mainly because of different market conditions, different socio-economic conditions in the market. This session deals with the following theories namely

- Wheel of Retailing
- Retail Accordian Theory
- Theory of Natural Selection
- Retail life cycle

Wheel of Retailing

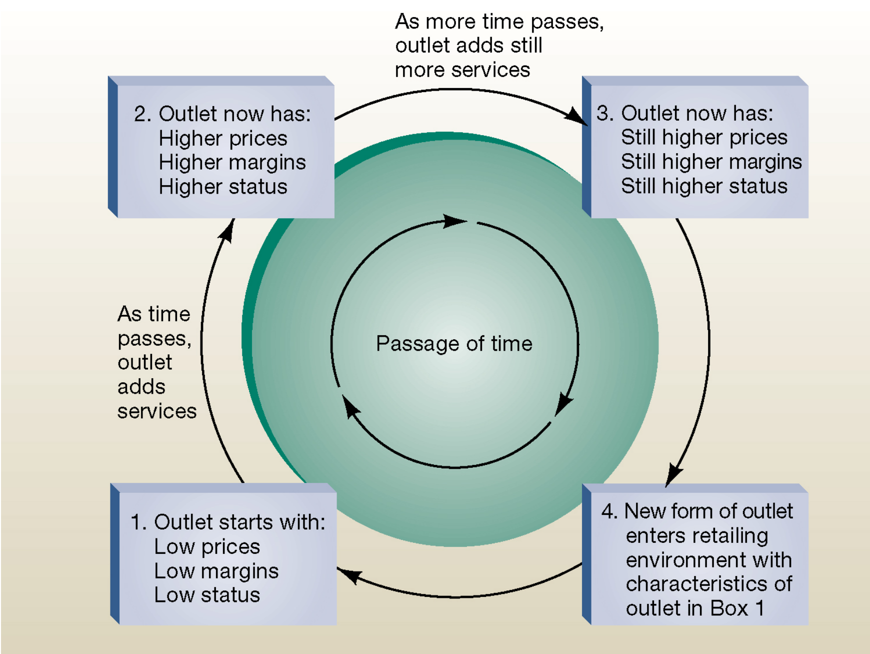

Exhibit 4.2.2 Wheel of Retailing

This theory talks about the structural changes in retailing. The theory was proposed by Malcomb McNair and according to this theory it describes how retail institutions change during their life cycle. In the first stage when new retail institutions start business they enter as low status, low price and low margin operations. As the retail firms achieve success they look in for increasing their customer base.

They begin to upgrade their stores, add merchandise and new services are introduced. Prices are increased and margins are raised to support the higher costs. New retailers enter the market place to fill the vacuum, while this continues to move ahead as a result of the success. A new format emerges when the store reaches the final stage of the life cycle. When the retail store started it started low but when markets grew their margins and price changed. The theory has been criticized because they do not advocate all the changes that happen in the retail sector and in the present scenario not all firms start low to enter the market

Retail Accordian Theory

This theory describes how general stores move to specialized stores and then again become more of a general store. Hollander borrowed the analogy 'accordian' from the orchestra. He suggested that players either have open accordion representing the general stores or closed accordions representing narrow range of products focusing on specialized products. This theory was also known as the general-specific-general theory. The wheel of retailing and the accordion theory are known as the cyclical theories of retail revolution

Theory of Natural selection

According to this theory retail stores evolve to meet change in the microenvironment. The retailers that successfully adapt to the technological, economic, demographic and political and legal changes are the ones who are more likely to grow and prosper. This theory is considered as a better one to wheel of retailing because it talks about the macro environmental variables as well, but the drawback of this theory is that if fails to address the issues of customer taste, expectations and desires

Retail Life cycle

Like products, brands retail organizations pass through identifiable stages of innovation, accelerated development, maturity and decline. This is commonly known as the retail life cycle. Any organization when in the innovation stage is nascent and has few competitors. They try to create a distinctive advantage to the final customers. Since the concepts are new at this stage organizations try to grow rapidly and the management tries to experiment. Profits will be moderate and the stage may last for a couple of years. When we talk about our country e-buying or online shopping is in the innovation stage.

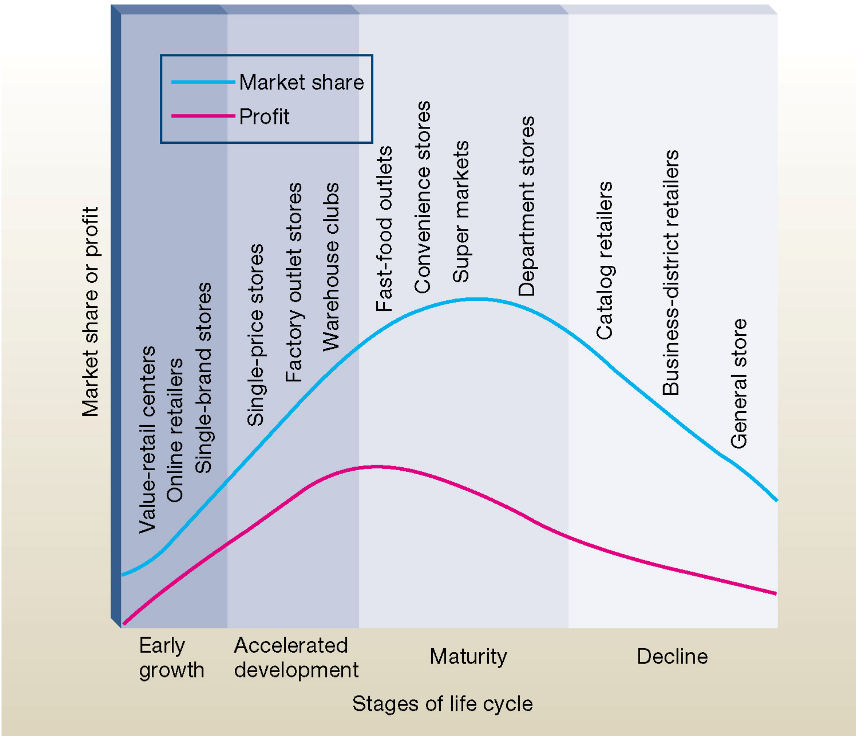

Exhibit 4.2.3 Retail Life Cycle

In the accelerated growth phase the organizations face rapid increase in sales, competitors begin to emerge and the organizations begin to use leadership and their presence as a tool in stabilizing their position. The investment level will be high as there are others who will be creating a lot of competition. This level may go up to eight years. Hypermarkets, Dollar stores are in this stage. In the maturity stage as competition intensifies newer forms of retailing begin to emerge, the growth rate starts to decline. At this stage firms should start work on strategies and reposition techniques to be in the market place. Supermarkets, cooperative stores are in this stage. In the final stage of the retail life cycle is the declining phase where firms begin to loose their competitive advantage. Profitability starts to decline further and the overheads starts to rise. Thus we see that organizations needs to adopt different strategies at each level in order to sustain in the marketplace

Classification Of Retail Formats

Retailers have changed dramatically according to the changing trends and the evolving needs of the consumers. Different retail format have emerged over the years and each have been an improvisation over the earlier formats. Retail stores can be classified broadly based on store based and non-store based, the store based is otherwise the brick and the motor stores while the non-store based are those, which do not use the traditional format. Ownership in store based is further divided based on ownership and merchandise. This section discusses some of the prominent formats

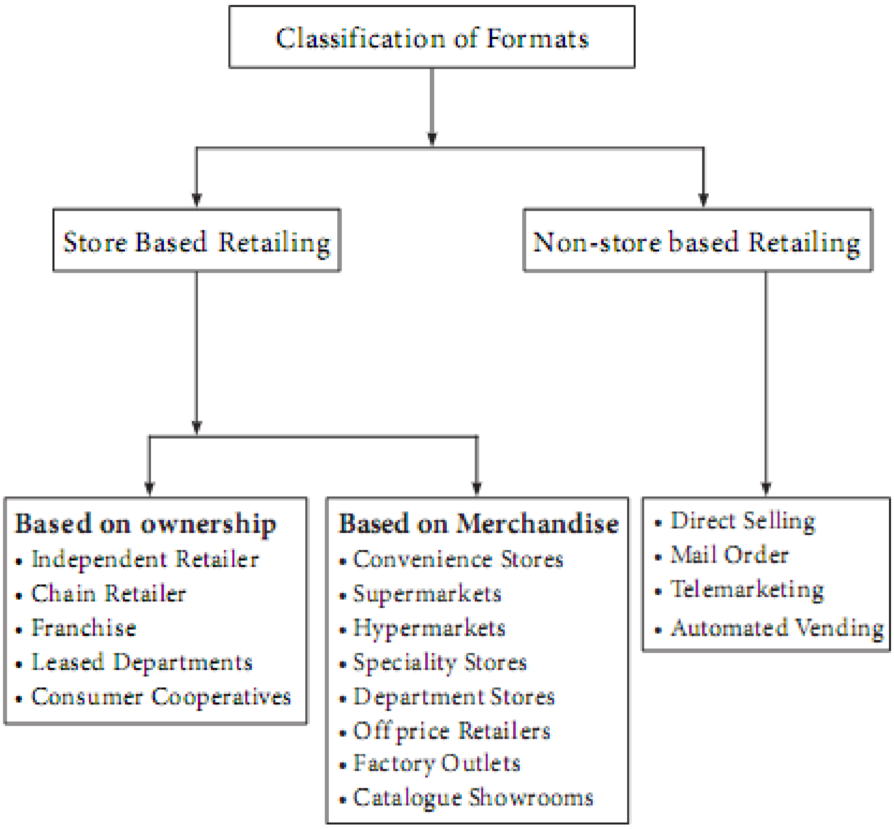

Exhibit 4.2.4 Classification of Retail Formats

Retail formats are broadly classified into store based and non-store based retail formats. The store based formats are the traditional models where you have brick and motor stores while a direct relationship with the customer is the trust area of the non-store based. The store based is further divided based on the ownership and the merchandise held by the stores.

Classification Based On Ownership

An independent Retailer- these are retail stores which owns only one retail outlet. Usually the format is passed from generation to generation and this is has a proprietor who owns the store. 80 percent of the retail stores fall under this class in our country. From the paan shops to the kirana stores we find this type of stores in our country. Saravana stores is a good example.

A Chain Retailer

They are otherwise known as the corporate chain where we find two or more outlets under a common ownership. These stores have commonality in merchandise, store layout, ambience etc. The advantage of this particular type of format is the economies of scale they enjoy. Here since they are scattered all over consumer preference may not be given greater importance. Some of the chain retailers are Mega mart and Nilgris.

Franchising

This is a contractual agreement between two parties where the franchiser allows the franchisee to conduct the business under an established name in return for a fee. Some of the well-known franchisers are Mc Donald's, Archie's stores, Pizza Hut etc

Leased Departments

These is otherwise known as shops in shops. In this particular type a portion of a store is rented or leased to a third party. We see Coffee Day having outlets in Crossword bookstores or Pizza Corners in multiplexes.

Consumer Cooperatives

These are retail institutions owned by consumers and this is mainly because of dissatisfied customers whose needs were never fulfilled by the existing retailers. Some of these are either owned by the government or backed by government. This helps in price negotiations and is one of the prime players when price quality is considered as an important parameter. We find Farmers cooperatives, Mahila cooperatives and employee cooperatives in different locations.

Classification Based On Merchandise

Convenience Stores

These are relatively small stores near residential area and are open for long hours. They carry limited line of high turnover products and have self-service formats. This format is emerging in India and they work seven days a week. BP's In&Out, HP Speed mart fall under this category.

Supermarkets

These stores are relatively large and operate on low costs, low margins, high volume and offering a self-service format. The store houses food, laundry, and household maintenance products. Some examples for this format are Nilgiris and Food World.

Hypermarkets

Has it's origins in the US, these are stores that have a space of about 80,000 to 2,20,000 sq ft. the combine supermarket, discount stores and the warehouse principles in setting up them. They are usually situated on the outskirts of big cities and towns. In India the size is proportional and is not too big. Big bazaar is considered as a hypermarket.

Stores

They are characterized by narrow line, with deep assortments in that particular product line. For the speciality stores a well-defined target market is essential. Personal attention, store ambience, customer service are important to the retailers. Music World, Gautier Furniture's are examples of this type of retailers. A new form of speciality stores have emerged and are called the category killers, who offer products from a single product line at economical prices. This particular concept has found tremendous appeal with the Indian market. Toys kemp in Bangalore is a classic example of this type of stores

Departmental Stores

This format originated in the mid-nineteenth century and is popular in many parts. They are large scaled retail outlets whose merchandise offer runs across different product lines. Apparel and home furnishing are the most common categories found in the departmental stores. The size of an average Indian departmental store varies between 20,000-40,000 sq ft, while that of the western stores are around 75,000 + sq ft. Some of the big players in this format are Life style, Globus, Ebony and so on.

Off-price Retailers

In this format, the merchandise is sold less than the MRP. The retailers buy manufacturer's seconds or overruns as a result of which the merchandise may be in odd sizes or may be minor defects. Some off-price retail stores are manufacturer run and are called the factory outlets and sell the manufacturer's products at lesser prices compared to other retailers. Mega Mart, Levi's factory outlets are some of the examples of this format.

Catalogue showrooms

They are retailers who specialize in goods like jewellery, electronics. Customers have to check through a catalogue and then order the product they need. This concept s still in the nascent stage in the Indian market

Non-Store Retailing

A form that is gaining ground in the non-store retailing, in this type of retailing the customers have a direct relationship with the retailers. The non-store retailing is broadly classified into direct selling and direct response marketing, which incorporates mail orders, television shopping and electronic shopping

Direct selling

This form of retailing is common for products like cosmetics, food products, educational materials and basic home appliances where the consumer will be in his place while the marketer brings the products to his doorsteps. Over the last decade the concept has grown leaps and bounds and according to the direct selling industry in India, there has been a 60-65 percent growth in sales turnover from this industry alone every year.

Telemarketing

Using the telephone to sell directly to consumers has become the major direct marketing tool. Marketers use outbound telephone charges to help sell their products and services. Some telemarketing systems are fully automated. Marketers also use inbound toll-free numbers to receive orders arising from interactive marketing done through television and radio ads, direct mail or catalogs. Telemarketing is used in industrial as well as consumer marketing. The recent explosion in unsolicited telephone marketing has annoyed many consumers who object to the almost daily junk phone calls that pull them away from their normal routines. Today mobile companies, insurance companies and banks are using this technique.

Mail order Retailing

This form eliminates personal selling and the physical store operations. This format is appropriate to specialty products or narrow product lines and where the target market is well defined. The main advantage of this type of retailing is the convenience they offer to the customers. In India, long since book publishers (Prentice –Hall, Tata McGraw Hill, Sultan chand etc.)are using this method of selling.

Television Shopping- the television based retailing has received fair amount of success in India. With players like Asian Sky shop, TSN products are advertised on televisions with features, warranties and prices discounts. Phone numbers are given for different cities where the customers have to give a call to the nearest place and order the products. The products are then home delivered.

Electronic Shopping

The fastest growing medium to do retailing is electronic medium. Every brick and motor retailers are looking for click only models whereby customers can order products at the click of a button. This format virtually eliminates the physical infrastructure needed and can help in reducing the cost of operations. An effective supply chain is what these players need. It has been estimated that the Indian online shopping market is worth Rs.150 crores with 25% growth in 2005-06. The industry is expected to grow in the next 3-5 years. E-bay, rediff.com are some of the online shopping portals in the country.

Pantaloon: Fashion by Pantaloon

Pantaloon is the company's departmental store and part of life style retail format. In fact, PRIL took its very initial steps in the retail journey by setting up the first Pantaloon store in Kolkata in 1997. In a short time Pantaloon has been able to carve a special place for it self in the hearts and minds of the aspirational Indian customers. The company has depth of offering for both men and women at affordable prices. A striking characteristic of Pantaloon has been the strength of its private label programme. John Miller, Ajile. Scottsvile, Lombard, Annabelle are some of the successful brands created by the company.

Big Bazaar: Is se sasta aur acha kahin nahin

Big bazaar is the company's foray into the world of hypermarket discount stores, the first of its kind in India. Price and the wide array of products are the USP's of Big Bazaar. Close to two lakhs products are available under one roof at prices lower by 2 to 60 per cent over the corresponding market prices. The high quality of service, good ambience, implicit guarantees and continuous discount programmes have helped in changing the face of the Indian retailing industry. A leading foreign broking house compared the rush at Big Bazaar to that of a local suburban train

Food Bazaar – Wholesale prices

Food Bazaar's core concept is to create a blend of a typical Indian Bazaar and International supermarket atmosphere with the objective of giving the customer all the advantages of Quality, Range and Price associated with large format stores and also the comfort to See, Touch and Feel the products. The company has recently launched an aggressive private label programme with its own brands of tea, salt, spices, pulses, jams, ketchups etc. With unbeatable prices and vast variety (there are

Elements Of Retail Strategy

The retail strategy is an overall plan and guidelines that guides a retailer. A retail strategy is a clear and well-defined plan that the retail organizations outline to tap the market and create a long-term relationship with the customers. The steps that are involved in strategy formulation are the same in every industry. Exhibit 4.2.5 brings out the steps in retail strategy.

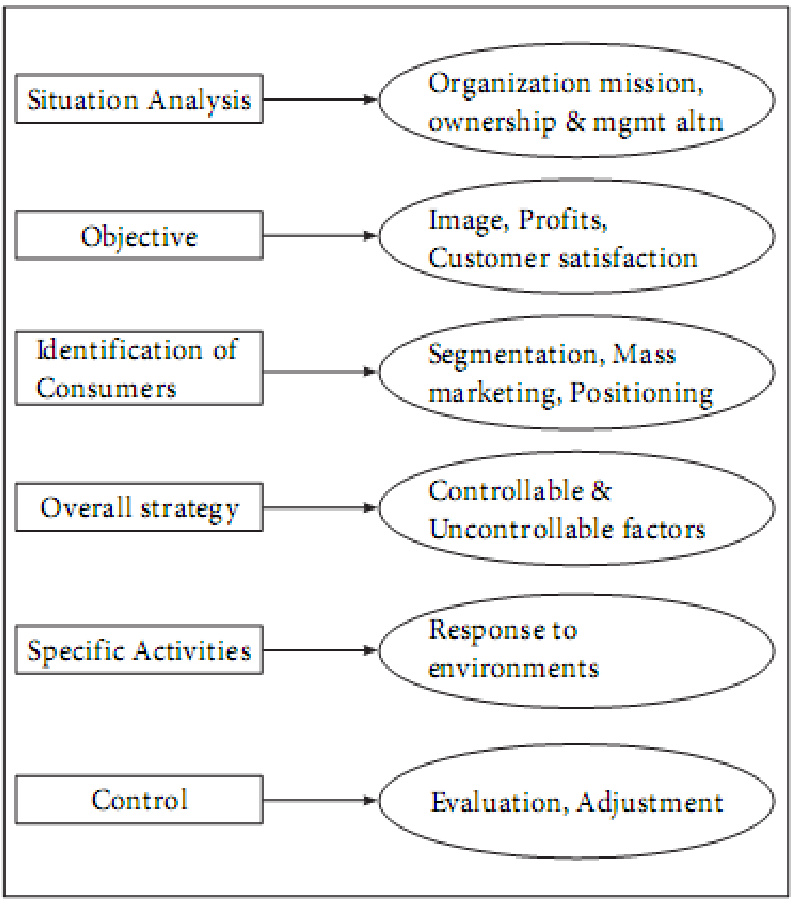

Exhibit 4.2.5 Steps in Retail Strategy

Situation Analysis

The first stage in retail strategy is establish the organizational mission. A mission statement acts as a motivator for the organization. The mission statement is one, which inspires the employees in the organization to stay focus on the goals of the organization. Evaluating ownership and management options like whether to go it alone or have a partnership or to buy an already existing organization has to be clearly outlined. Apart from this the merchandise that would be sold should also be evaluated.

Objectives

These are the long, short and the mid term goals the retailer hopes to attain. The goals may be based on profits that may include ROI, sales which include market share, and the customer and the stakeholders' satisfaction. Te objectives need to be well defined keeping in mind the mission of the organization and should see that the strategies get translated into results.

Identification of customers

Even though the strategy of a particular retailer may be executable and the mission of the organization looks inspiring, but if a wrong target market is chosen, it may prove a failure. It is essential for the retailer to understand the needs of the customer. A retailer has three options which he may choose according to his objective, he can try selling different product categories to a broad spectrum of customers which is known as mass marketing or work on one particular segment which is market segment or have two or more segments which is commonly called as selective segments.

Overall Strategy

The overall strategy is broadly classified into controllable and uncontrollable factors. The location of the store, merchandise decision, communication, objectives come under controllable factor since the firms has a element of autonomy n deciding about them. In case of uncontrollable factors, the factors that a retailer must try and adapt like the technological changes, legal imperatives, cultural factors, economic situation get categorized. This step is one of the most essential steps in retail strategy because this stage demonstrates the firm's ability to adapt to different changing conditions.

Specific Activities

This deals with the tactical decisions and the day-to-day operations of the firm. The firm's responsiveness to the environmental factors with the help of the marketing mix elements is the actual functioning of the firm's activities.

Control

In the final phase of strategy formulation is the review of the firm's performance of a period of time. The firm's strategies and the tactics have to be evaluated to find the effectiveness and if it fall in place wit the organizational objectives and the with the firm's mission. In case if the firm finds that some of the tactics are time consuming and not much of benefit could be figured out the organization should ensure that such tactics have to be modified or be dropped from the firm's future course of action.

Wholesaling

This includes all the activities involved in selling goods and services to those who buy for resale purpose. In the case of wholesaling this excludes manufacturers or producers who are involved directly in the production of the goods. They are the marketing intermediaries that buy from one source and sell it to another. The main function of a wholesaler is facilitating the transportation of the product and at times in the transfer of the titles. The intermediaries' performing the wholesaling function is predominantly divided into two types namely merchants and agents. The difference between the two forms lies in if they take title to the goods they sell.

Classification Of Wholesalers

The classification is based on whether the intermediaries take title to the goods they sell. Taking title to the goods means the intermediaries own that merchandise and must be prepared to handle the risk associated with the ownership, including getting stuck with merchandise even if it turns out to be un-sellable

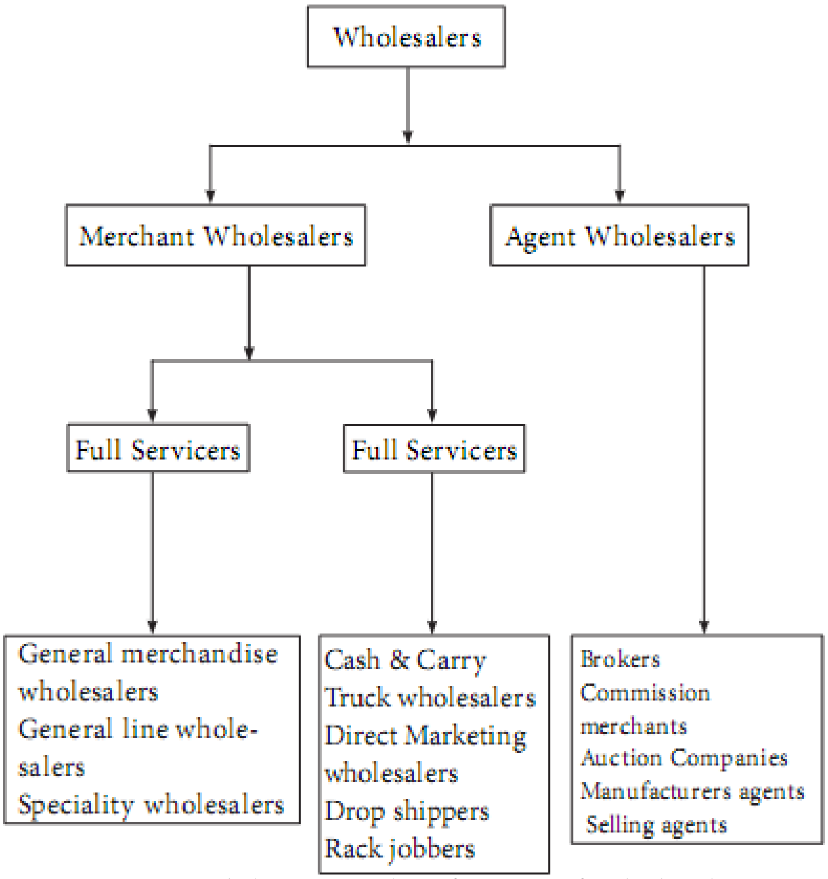

Exhibit 4.2.6 Classification of Wholesalers

Classification Of Merchant Wholesalers

The merchant wholesalers are independently owned concerns that take title to the goods they distribute. Some of the merchant wholesalers operate at the national level while some of them are more into regional levels. The merchant wholesalers are classified in terms of the number and the types of service they provide to the customer. The major division of the merchant wholesalers is termed as the Full-service merchant wholesaler and Limited –service merchant wholesaler.

The *Full-service merchant wholesaler* provides customers with a complete array of services in addition to the merchandise they offer. The service may include delivery, credit facility, advice and even assistance as accountant aid. These people are also called as full-function wholesalers. The full-service wholesalers are further classified into three types by the line of the goods they offer.

- General Merchandise Wholesalers are those who sell large number of different product types or lines. It would be a one stop shop for the retailers to procure things from them at a much bargainable prices

- General Line Wholesalers are those who limit their offerings to one particular product line. They may hold all the products and variants in one particular product line

- Speciality Wholesaler reduce the line further, they may hold only select products in a particular product line. The traders of spices can be classified under this category

The choice of being a more general merchant wholesaler or a much-specialized wholesaler depends on the choice of the target customers, whether their customers are speciality stores or a general stores

The *Limited-Service Merchant Wholesaler* is one who offers less than full service and charges lower prices. These types of wholesalers are also known as limited-function wholesalers. This model comes to prominence when some customers may not want or may not be interested to pay for some of the services the Full-service merchant wholesaler offers. They may prefer to sacrifice the services offered to get lower prices. As a result of this particular category has emerged. This Limited-service merchant wholesaler is further divided into five types based on the various services they try to render and the on the basis of the payment for the goods they sell.

Exhibit 4.2.7 Metro Cash & Carry

- *Cash and Carry Wholesalers* are buyers who do not want certain specialized service such as delivery or credit. The wholesalers prefer the buyers to come to their warehouses and buy the products and pay for them at the same time. Metro, the German wholesaler refer exhibit 2.6.7 is a classic example for this type for this category

- *Truck Wholesalers* are otherwise called the truck jobbers sell limited line of items. They operations are predominantly with the help of trucks and this helps in the immediate delivery offers. Some of the items used to be considered in this method are perishables and those which have great demand. Although this method is a expensive form of distribution this definitely a aggressive form of selling the offering

- *Drop Shippers* are merchants who take title to the goods but not the possession of the goods. These merchants take orders form the buyers pass it to the manufacturers, which will, then ship the product directly to the buyer. As the product goes directly to the buyer, it minimizes in the loading and unloading of the product. This type is commonly used for commodities like cement, coal etc. The drop shippers are also called as the desk jobbers as they need minimum infrastructure. Since they do not handle the shipping, there is even no need for a warehouse to keep the products.

- *Rack Jobbers* are another type of merchant wholesalers who contract with the retailers to set up display racks in the store and stock them with merchandise. This particular category of wholesalers gained prominence after the emergence of departmental stores

Classification Of Agent Wholesalers

The agents are the next category of wholesalers, they take possession of the goods but at the same time they do not take title to them. The agents in no way provide warehouse facility or credits but provide facilities like arranging credit or delivery as a part of their service. The agents make business through commissions based on selling prices of the product. The percentage of the commission varies based on the industry as well on the perishable nature of the product. The agents can be classified as follows namely

- *Brokers* who are intermediaries who bring the sellers in touch with the buyers and also facilitate in the contractual negotiations and receive commissions based on the work. Brokers are considered to be neutral and are found in every field. The commissions they receive from both the parties will be relatively less and this requires minimum investment. Most organizations prefer brokers because they work on commissions and do not have long-term relationships with one particular organization.

- *Commission Merchants* are similar to brokers but are given certain powers by the sellers of the product. They perform majorly the pricing function and work closely with the producers of the products. The commission merchants are most common in the agricultural products. The commission merchants take possession of the goods so that the prospective buyers have a chance to inspect the products; once the deal is finalized the commission merchants deduct their commission past and return the balance to the producer. Exhibit 4.2.8 shows the homepage of a commission merchant

- *Manufacturer's* Agents are those who are available for the producer who are not interested in performing the sales activity or who lack the expertise to have one. The manufacturer's agents work in limited geographical areas and in low priority zones. If a producer of electronic goods feels having a separate sales force for the rural areas is an expensive decision they may go in for a merchant's agent to do the job of selling their offering. The merchant's agents will be familiar with the area they operate and this is one reason why producers opt for the merchant's agents. One another benefit of these people is that they need not be paid till the deal is finalized.

- The *Selling Agents* are paid a commission and are expected to be familiar with the products and the markets. Unlike the manufacturer's agents they do not restrict themselves to one particular geographical area but rather to all places where the product has got a market. Since they concentrate on a much larger scale they are given more responsibility including the elements of promotions and pricing of the products. The organizations who utilize these people are otherwise called as external marketing department

Exhibit 4.2.8 Commission Merchants

Key Terms

- Accordian Theory
- Convenience Stores
- Franchising
- Full service merchant wholesaler
- Hyper Markets
- Leased Departments
- Limited service merchant wholesaler
- Retail Life Cycle
- Retailing
- Speciality Stores
- Theory of Natural Selection
- Wheel of Retailing
- Wholesaler

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UNIT-V

PROMOTION DECISION

Learning Objectives

- Marketing communication
- How the promotion mix is established
- How to identify the target audience
- How to determine the communication objectives
- How the message should be designed
- The selection of communication channels
- How the promotion budget is determined
- How to evaluate and manage the communication process

Lesson 5.1 - Marketing Communication

Introduction

Marketing communications is one of the four major elements of the company's marketing mix. Marketers must know how to use advertising, sales promotion, direct marketing, public relations, and personal selling to communicate the product's existence and value to the target customers.

The communication process itself consists of nine elements: sender, receiver, encoding, decoding, message, media, response, feedback, and noise. Marketers must know how to get through to the target audience in the face of the audience's tendencies toward selective attention, distortion, and recall.

Developing the promotion program involves eight steps. The communicator must first identify the target audience and its characteristics, including the image it carries of the product. Next the communicator has to define the communication objective, whether it is to create awareness, knowledge, liking, preference, conviction, or purchase.

A message must be designed containing an effective content, structure, format, and source. Then communication channels both personal and non-personal must be selected. Next, the total promotion budget must be established. Four common methods are the affordable method, the percentage-of-sales method, the competitive-parity method, and the objective-and-task method.

The promotion budget should be divided among the main promotional tools, as affected by such factors as push-versus-pull strategy, buyer readiness stage, product life-cycle stage and company market rank. The marketer should then monitor to see how much of the market becomes aware of the product, tries it, and is satisfied in the process. Finally, all of the communications effort must be managed and coordinated for consistency, good timing, and cost effectiveness.

The objective and importance of marketing communication

The objective and importance of marketing communications are

- Behaviour modification: Promotion seeks to modify behavior and thoughts and reinforces the existing behavior. The company hopes to create favourable image for itself and also to motivate customers of the company's goods and services.
- Objective to inform: All promotional communications are designed to inform the largest market about the firm's product or services. Informative promotion is more prevalent in the early stages of life cycle of a product or services. It is necessary to increase the primary demand. The first thing which the customer needs is the information about the product itself, its features, etc. it leads the consumer to make a more intelligent purchase decision.
- Objective to persuade: It designed to stimulate purchase. Sometimes firm wants to create appositive image in the mind of the customer for the long term gain rather than the immediate purchase. Persuading to customer to purchase more is the main objective when product reaches the growth stage of the life cycle because at that time both the consumer formation objective and consumer retention objective have to be taken simultaneously.
- Reminder objective: It is used to keep the product brand name in the public's mind and is used in the maturity stage of the product life cycle. This type of promotion is used to refresh the memory of the target customers assuming that they know the product.
- Specific Objective: The goal of promotion is to change the pattern of demand for a product by behaviour modification – informing, persuading and reminding. In economic terms, the basic purpose of promotion is to change the location and shape of the demand curve. It means to shift the demand curve upward or even to make a change temporarily.

The five major modes of communications are advertising, sales promotion, public relations, personal selling, and direct marketing.

Advertising

It is a paid form of non-personal mass communication by an identified sponsor. The mass media include print media, audio-visual media, direct mail, bill boards etc. Sponsors may be non-profit organization, a political candidate, a company or an individual. Advertising is used when sponsors want to communicate with a number of people who cannot be reached economically and effectively through personal means.

Personal selling

Personal selling refers to the face-t-face contact between a seller's representative and those people with whom the seller wants to communicate. Non-profit organizations; political candidates, firms and individuals use personal selling to communicate with the public

Sales promotion

Sales promotion includes activities that seek to directly induce or indirectly serve as incentives to motivate a desired response on the part of the target customers, company sales people and middle men, and their sales force. These activities add value to the product. In sales promotion, activities like discount, gifts, contests, premium, displays and coupons are included.

Public Relations

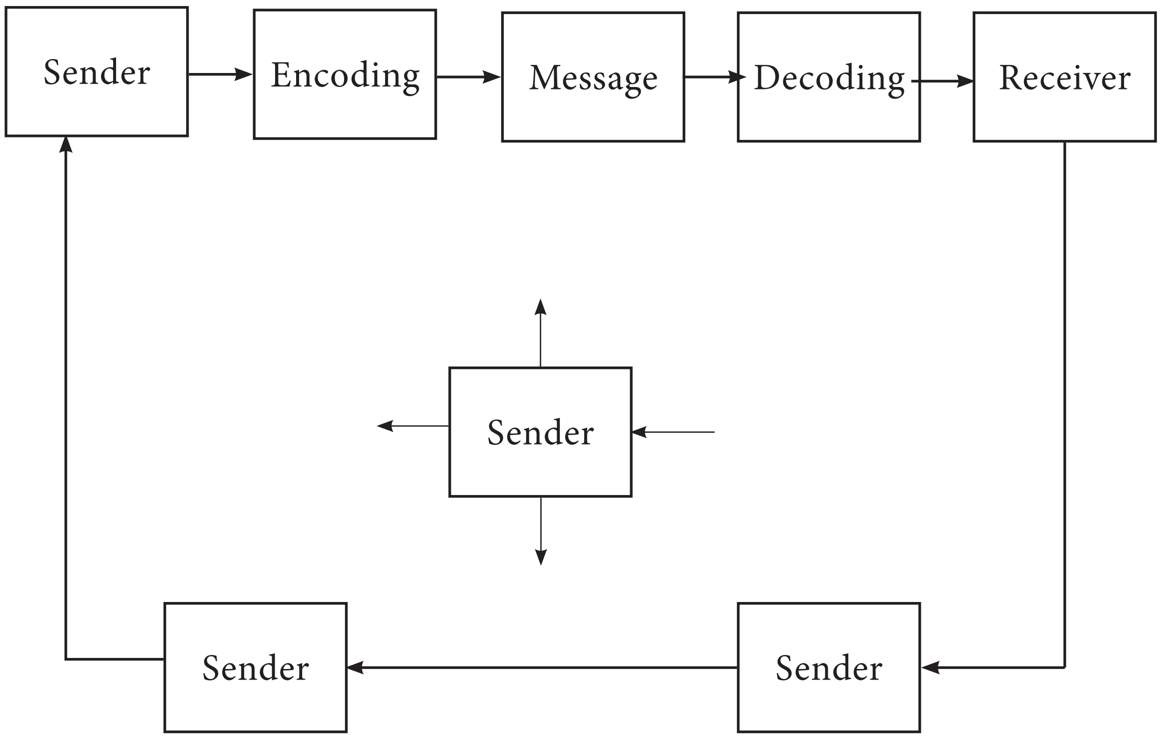
It is a planned effort by an organization to influence the attitudes and opinions of a specific group by developing a long-term relationship. The target audience may be customers, stock holders, government agencies or special interest groups.

Direct Marketing

Direct Marketing is a form of advertising that allows businesses and non-profits organizations to communicate straight to the customer, with advertising techniques that can include, cell phone text messaging, email, interactive consumer websites, online display ads, fliers, catalog distribution, promotional letters, and outdoor advertising.

The communication process

In a communication process there are two parties –Sender and Receiver and two communication tools –Message and Media. In the communication process four functions are involved –Encoding, Decoding, Response and Feedback. Besides these there is noise.



Communication Process

sender: The party who is sending the message

Encoding: The process of putting the message in to symbolic form
Message: The set of symbols that the sender transmits

Media: The communication channel through which the message moves from sender to receiver

Receiver: The party receiving the message sent by the sender

Response: The reaction of the receiver after being exposed to the message

Feedback: The part of the receiver's response communicated back to the sender.

Noise: The unplanned distortion during communication process

Developing effective communications

A. Identify the target audience

1. Image analysis is a major part of audience analysis that entails assessing the audience's current image of the company, its products, and its competitors

a) First step is to measure target audience's knowledge of the subject using a familiarity scale

b) Second step is to determine feelings toward the product using a favorability scale

2. Specific content of a product's image is best determined with use of semantic differential (relevant dimensions, reducing set of relevant dimensions, administering to a sample, averaging the results, checking on the image variance)

B. Determine the communication objectives

1. Based on seeking of a cognitive, affective, or behavioral response

2. Assuming the buyer has high involvement with the product category and perceives high differentiation within the category, base objectives on the hierarchy-of-effects model (hierarchy: awareness, knowledge, liking, preference, conviction, purchase)

C. Design the message (AIDA model)

1. Message content—choosing an appeal (rational appeal to audience's self interest, emotional appeal attempt to stir up either positive or negative emotions, moral appeals are directed to the audience's sense of what is right and proper)

2. Message structure—one-sided presentation versus two-sided

argument

3. Message format—must be strong, based on headline, copy, "sound," nonverbal clues, color, expression, dress, etc.

4. Message source —expertise, trustworthiness and liability

D. Select the communication channels

1. Personal communication channels—direct (advocate, expert and social)

2. Non-personal communication channels—indirect (media, atmospheres, events)

E. Establish the total marketing communications budget

1. Affordable method

2. Percentage-of-sales method

3. Competitive-parity method

4. Objective-and-task method

Deciding on the marketing communications mix

F. Promotional tools—benefits of each tool (advertising, sales promotion, public relations and publicity, personal selling, direct marketing)

G. Factors in setting the marketing communications mix (type of product market, buyer-readiness stage, product-life-cycle stage)

H. Measure the communications' results Managing the integrated marketing communications process

A. A concept of marketing communications planning that recognizes the added value of a comprehensive plan

1. Evaluates the strategic roles of a variety of communications disciplines

2. Combines these disciplines to provide clarity, consistency and

maximum communications impact through the seamless integration of discrete messages

Questions

1. What is marketing communication?
2. What are the objectives of marketing communication?
3. Explain communication process.

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Lesson 5.2 Promotion Mix

Introduction

Promotion is a key part of marketing programme and is concerned with efficiently and effectively communicating the decisions of marketing strategy to target audiences. It is the marketing function concerned with persuasive communication of the marketing programme to target audience with the intent to facilitate exchange between the marketer and the customer, which may satisfy the objectives for both the customer and organization. Promotion is targeted to the target audiences. It is also goal oriented and the objective may be to create brand awareness, to educate the consumers, to create a positive image, to build preference. The ultimate goal is to sell the product or service to consumers who have a need of it.

The components of promotion mix are as follows:

1. Advertising
2. Personal selling
3. Sales promotion
4. Publicity
5. Direct Marketing

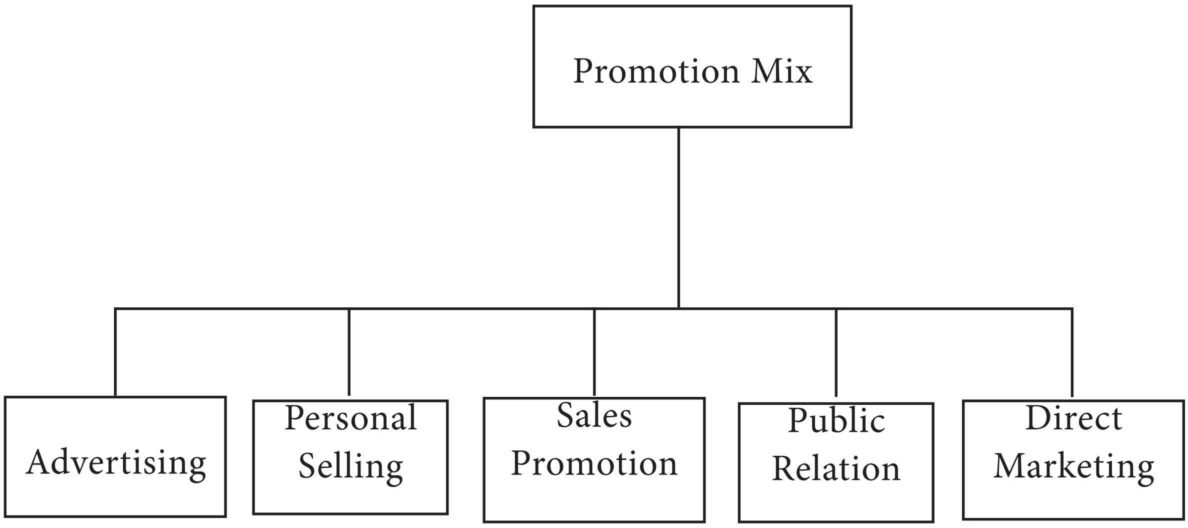

Fig. 1

In a time when customers are exposed daily to a nearly infinite amount of promotional messages, many marketers are discovering that advertising alone is not enough to move members of a target market to take action, such as getting them to try a new product. Instead, marketers have learned that to meet promotional method in conjunction with advertising.

Other marketers have found that certain characteristics of their target market (e.g., small but geographically dispersed) or characteristics of their [product (e.g., highly complex) make advertising a less attractive option. For these marketers better results may be obtained using other promotional approaches and may lead to directing all their promotional spending to non-advertising promotions.

Finally, the high cost of advertising may drive many to seek alternative, lower cost promotional techniques to meet their promotion goals.

Advertising

The use of paid media by a seller to communicate persuasive information about its products, services, or organization—is a potent promotional tool. Advertising takes on many forms (national, regional, local, consumer, industrial, retail, product, brand, institutional, etc.)

designed to achieve a variety of objectives (awareness, interest, preference, brand recognition, brand insistence).

Advertising decision-making consists of objectives setting, budget decision, message decision, media decision, and ad effectiveness evaluation. Advertisers should establish clear goals as to whether the advertising is supposed to inform, persuade, or remind buyers.

The factors to consider when setting the advertising budget are: stage in the product life cycle, market share, competition and clutter, needed frequency, and product substitutability.

The advertising budget can be established based on what is affordable, as a percentage budget of sales, based on competitors' expenditures, or based on objectives and tasks, and based on more advanced decision models that are available.

The message decision calls for generating messages, evaluating and selecting between them, and executing them effectively and responsibly.

The media decision calls for defining the reach, frequency, and impact goals; choosing among major media types; selecting specific media vehicles; deciding on media timing; geographical allocation of media. Finally, campaign evaluation calls for evaluating the communication and sales effects of advertising, before, during, and after the advertising.

Sales promotion and public relations are two tools of growing importance in marketing planning. Sales promotion covers a wide variety of short-term incentive tools designed to stimulate consumer markets, the trade, and the organization's own sales force. Sales promotion expenditures now exceed advertising expenditures and are growing at a faster rate.

Consumer promotion tools include samples, coupons, cash refund offers, price packs, premiums, prizes, patronage rewards, free trials, product warranties, tie-in promotions, and point-of-purchase displays and demonstrations.

Trade promotion tools include price-off, advertising and display allowances, free goods, push money, and specialty-advertising items. Business promotion tools include conventions, trade shows, contests, sweepstakes, and games. Sales promotion planning calls for establishing the sales promotion objectives, selecting the tools, developing, pretesting, and implementing the sales promotion program, and evaluating the results.

Marketing public relations (MPR) is another important communication/promotion tool. Traditionally, it has been the least utilized tool but is now recognized for its ability in building awareness and preference in the marketplace, repositioning products, and defending them. Broadly, MPR is those activities that support the ultimate sale of a product or service. Some of the major marketing public relations tools are news, speeches, events, public service activities, written material, audio-visual material, corporate identity, and telephone information services. MPR planning involves establishing the MPR objectives, choosing the appropriate messages and vehicles, and evaluating the MPR results.

Questions

1. What is promotion mix?
2. What are the different components of promotion mix?
3. Explain public relation in marketing.

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Lesson 5.3 - Advertising Decision

Modern marketing calls for more than developing a good product, pricing it attractively and making it accessible to the target consumer. Companies must also communicate with the present and potential customers. In this respect, advertising is a potent promotion tool of marketing communication mix, while the rest four are :

- Sales Promotion
- Direct Marketing
- Public Relations and Publicity
- Personal Selling

WHAT IS ADVERTISING ?

Various marketing Gurus have defined advertising according to their own views:

" Advertising Consists of all the activities involved in presenting to a group a non –personal, oral or visual openly – sponsored, identified message regarding a product, service or idea. This message, called an advertisement, is disseminated through one or more media and paid for by the identified sponsor".

W.Z. Stanton

"To give public notice or to announce publicly".
"Advertising is mass communication of information intended to persuade buyers so as to maximize profits".

J.E. Littlefield

To summarise, advertising means any paid form of non – personal presentation and promotion or ideas, goods or services by an identified sponsor.

IMPORTANCE OF ADVERTISING

It is just not enough to manufacture a product. People must be informed of its existence and should be given good reasons to buy it. This is a job which is sought to be done by advertising. Without advertising, people would not be aware of the attributes of the product nor of its price. Let us now discuss the role and importance of advertising.

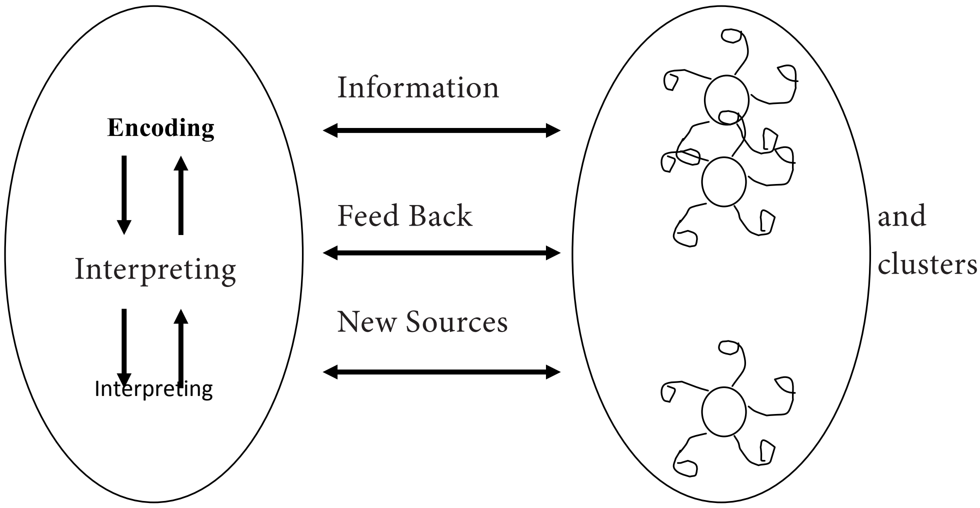
(i) Way of Informing

Advertising is a way of communicating information to the consumer –information which enables him to compare and choose from the products and services available. Advertising enables consumers to exercise their right of free choice 1 " Encyclopedia Bitannica" such diverse media as handbills, newspapers, magazines, billboards, letters, radio and television broadcasts and motion pictures.

(ii) Manufacturer's concerns

Advertising is the most economical means by which a manufacturer or an institution can communicate to an audience either to sell a product or to promote a cause of social welfare, such as, civic drive, or an immunization programme. This includes the process of mass communication which is different from ordinary communication. Here a macro level mass communication is between manufacturer and his mass audience. This is also connected through new sources. Mass audience gives various reactions as responses. Here audience is interconnected as a group within groups. The 5 elements of mass communication are shown in the above chart.

Model Of News Communication



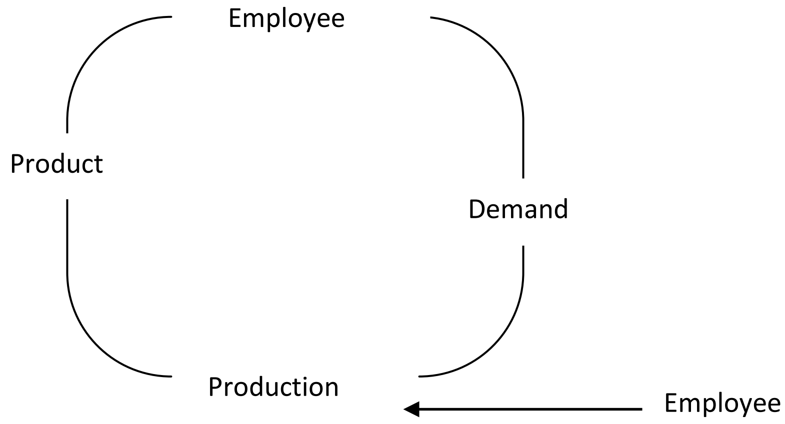
In India, an ordinary grocery store keeps as many as 20 brands of toilet soaps, 10 brands of toothpastes, 9 brands of cooking oils and over100 varieties of other packaged goods. In such a situation, advertising helps consumers to make an intelligent and well – considered purchase.
-- The Economic Times, December 21, 1989.

(iii)Fundamental Right of Freedom of Speech

Advertising being a necessary means of communication is an inseparable part of free speech. Any restriction on the right to recommend legitimate services or ideas in public will diminish the fundamental right of freedom of speech.

(iv) Improving productivity

Advertising can help in improving the economies of developed and developing countries. There is ample evidence to support this view. Advertising stimulates production and consequently generates more employment. It can help stabilize prices and leads to wider distribution and greater availability of goods an services.



(v)Economic Growth of Country

Advertising is an essential and integral part of the marketing system. It is sometimes maintained that the marketing system is nothing but requirement of a country's social and economic growth. Advertising stimulates sales and compels the firm to improve its productivity and contributes substantially to the growth of the economy. Thus marketing and advertising are key tools used to aid a country's growth.

Even though advertising costs a lot of money, and the costs are increasing day by day, a skillfully used advertising campaign can be the cheapest means of reaching the market and commutating with the consumers effectively. Advertising is wasteful if it fails to produce sales.

Advertisement leads to an increase in sales and market share.
Pepsi came to India with a zero market share. By December, 1995, it had captured 40 per cent of Indian market 1. Promise, a toothpaste manufactured by a small –scale unit, was able to snatch a 15 per cent share of the market by strong customer –oriented advertisements

People feel safe in purchasing products they know of. Advertising makes them aware of the products and their attributes. In promoting a product or a brand, the manufacturer/ advertiser stakes his reputation. No manufacturer/ Advertiser would be foolish enough to risk his reputation by making misleading claims in his advertisements. Hence advertised goods are trusted the world over and India is no exception.

ADVERTISEMENT AND SALES PROMOTION

Difference between Advertising and Sales Promotion

Advertising is a message which promotes ideas, good or services communicated through one or more media by an identified sponsor while sales promotion consists of short – terms incentives provided by the identified sponsors to consumers and traders to persuade them to purchase and stock his products. The major differences between Advertising and Sales Promotion are:

Advertising	Sales Promotion
(i) A reason is offered to buy.	An incentive is offered to buy.
(ii) Theme is to build up brand loyalty	Theme is to break down the loyalty to a competing brand.
(iii) Aim is to attract the ultimate Consumers.	Aim is to attract not only consumers but retailers, wholesales and Sales force also.
(iv) Effective in the long run.	Effective in the short run.
(v) Heavy advertising makes the brand image of the product and accords it the perception of higher quality	Heavy Sales promotion leads to the product being perceived as having a brand image of cheaper and lower quality product.
(vii) Advertising includes messages delivered through various types of Media.	Various types of incentives are offered for - Consumer promotion - Trade Promotion - Sales force Promotion

Questions

1. What is advertising?
2. What is the importance of advertising?
3. Write down the differences between advertisement and sales Promotion.

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Lesson 5.4 - Developing Advertising Programme

It is difficult to make an all – embracing generalization about distinctive qualities of advertising mainly because of its many forms and uses. Various companies do their advertising in different ways. In a small company advertising is handled by someone in the sales or marketing department who coordinates with an advertising agency.

On the other side, large companies setup their own advertising departments, where Marketing Manager reports to the Vice –President, Marketing.

The advertising department's job is to develop the total budget, help and develop advertising strategy and approach an advertising agency for advertising and designing a campaign. Most of the companies use an outside agency to help them design an advertising campaign and to select the media and decide about the timings and booking space.

In developing an advertising programme, marketing managers must always start by identifying their target market and the buyers involved. Thereafter, they have to make five major decisions in the programme development process known as the five

Ms which are explained in the following chart:

STEPS IN ADVERTISING PROGRAMME

Before Advertising		After Advertising
i)	Market	
	- Define Market - Select the target market	- Measure the effect of advertising to determine whether it would help achieve the target.
ii)	Motive	
	- Identify what makes people buy	- Compare the consumer buying motive and the advertising appeal.
iii)	Media	- Evaluate the effectiveness of media
	- Decide about the media mix - Allocate budget among TV, Radio, Press etc.,	- Assess the effectiveness of the message.
iv)	Measurement	
	- Assesses effectiveness of advertising	- Study sales graph
	- Evaluate possible achievement.	- Take a decision about future profile of advertising programme.

Advertising Goals

If an organization is spending crores of rupees on advertisement, then as managers we must attempt and be able to measure its effectiveness and delivery to find out whether we are receiving the value for money. However, advertising is only one part of marketing mix and the final delivery in rupees terms would involve the various marketing variables.

The tragedy of advertising is that if it does not lead to an increase in sales of the product, the entire blame is put on advertising. Hence a clear definition of advertising goals in required. A successful advertising campaign can be compared with a military campaign where goal is set as " capture the army post No. 11" and the goal is achieved.

Advertising goal can be defined as a clear and concise description of exactly what advertising is intended to accomplish, i.e.,

-- To increase sales,
-- To establish brand equity, and
-- To enter the target market.

Sometimes these objectives are considered as marketing objectives instead of advertising objectives.

Need to set Advertising Objectives

Some of the possible objectives that are stressed are :

1. Return on Investment (R.O.I) Advertising involves an investment of funds. Hence, it should produce a measurable return on the said investment in order to assess the desirability and profitability of advertising.

2. Selection of media. The most effective advertising tool should be chosen in order to get the most profitable result.

3. Coordination An appropriate co-ordination and integration of marketing and advertising efforts is imperative. Otherwise objectives of advertising are superimposed on objectives of marketing.

VARIOUS APPROACHES FOR SETTING ADVERTISING OBJECTIVES

(I) DAGMAR Approach

This is the most popular method of setting advertising goals and was proposed by Russel M. Colley. DAGMAR stands for - Defining advertising Goals for Measured Advertising Results.

Colley outlined this method for turning advertising objectives into specific measurable goals. He lists 52 possible advertising objectives under the same approach. The theory is based on the following: " The consumer passes through a hierarchy of stages between the time when the first ideas about the product comes to his mind and when he actually buys it" For example, an advertisement of a Generator should highlight fuel efficiency, easy start, after –sales service and ready availability of spares.

-- Initially it would inform us and we shall become aware of such a product. Then through product endorsement and trial we shall develop a favourable attitude and ultimately, we shall buy the product.

-- To set advertising objectives, we shall need to identify the stage in which the product is available and then we can set the objective.

Example :

A detergent manufacturing company wanted to position its product as the most powerful cloth cleaner and as a low cost detergent.

-- They worked out a campaign targeted to 3 crore households who own automatic washers.

-- Prior to the campaign release, they did an attitude survey on brand perception. After the campaign was over, they repeated the attitude survey.

The questions were focused on three areas:

(i) Which brand is the most effective in removing the spots ?
(ii) Which brand will you buy when you go to the market next ?

SURVEY RESULT

	Before Campaign	After 6 months	After 1 year
Awareness	38	46	52
Image	9	17	24
Preference	13	15	21

Specific advertising objectives could have been :

Increase awareness from 38 per cent to 52 per cent

Top image ranking to 24 per cent than 9 per cent

Increase preference to 21 per cent.

(ii) Product Life Cycle Approach

Advertising effectiveness varies according to the different stages of product life cycle.

(iii) Primary and Selective Demand Theory

According to this approach the advertising objective is categorized into two ways

Informative Advertising and Persuasive Advertising.

(a) **Informative Advertising.**

This advertising is important when the product is in the pioneering stage and the objective is to build Primary demand. Primary demand is sought to be created especially by concept selling for a category of products. Some particular conditions are required necessarily to advertise for creating a primary demand. The existence of a strong and basic consumer need is the most important prerequisite as advertising cannot create demand for a new product. It can only stimulate an existing demand. There must be strong buying motives in existence. Besides this, social trends, design, price, etc. also play a crucial rate at this stage.

For example, the manufacturer of "VIM" initially had to inform potential consumers of VIM Bar's economic benefits and many other advantages.

(b) Persuasive Advertising

This becomes important in the competitive stage, where a company's objective is to build selective demand for a particular brand. Most advertising falls in this category. Persuasive advertising is undertaken when a strong primary demand is in existence. The product should be distinctive, its benefits should be visible and also a strong brand consciousness must be generated.

A good example of persuasive advertisement is that of Philips. To promote its products especially CTVs, it employed Chennai based ad agency Anugrah Madison. The agency created a spcial campign "Engaveetu superstar" for the Tamil Nadu market and "maa inti mega star" for Andhra Pradesh Market. IN Tamil Nadu Rajani Kant is referred to as superstar and in A.P. Chiranjeevi is known as Meg Star. This was followed by road shows and contests for children.

Questions

1. What are the needs to set advertising objectives
2. What are the various steps in advertising programme?
3. What are the various approaches for setting advertising objectives?

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Lesson 5.5 - Media Profile For Advertising

Role of Media. Media has a vital role in the process of advertising communication. Effective advertising is possible only if suitable media are available.

The appropriateness of media used vis – a –vis the target audience and their reach are also of crucial importance.

Advertising Message ==> Media Mix ==> Target Audience
Result will reflect on the sales graph of the company <== Maximum Reach

A substantial portion of the advertising budget allocation to the mass media is spent on buying space and time. Therefore media decisions assume a considerable importance when financial implications come to the force.

Media Planning

Advertisement becomes effective only when it reaches the desired audience. The value of the advertisement is determined by the number of persons seeing it, reading it and thus becoming aware of the product or the service.

Media Selection

Each media has a specific function to perform and its selection depends upon the requirements of the job. Media can be divided into two categories:

Main Media -- also called "above the line" media,
e.g., newspapers, T.V. Radio, Magazines, etc.

Secondary Media- also called "below the line" media,
e.g., hoarding, direct mail, point of purchase, etc.
These are also known as reminder media.

Media Planning Process

The steps involved in media planning are:

(i) Media planning and buying space is the financial side of advertising.

(ii) It interacts with the creative process to form an important part of the overall marketing process.

(iii) Whereas the creative process is a descriptive process, the media process is one of transforming their description to the public, i.e., a vehicle of communication.

(iv) The primary responsibility of media practitioners is to ensure that the advertising message is seen, heard, read or recognized by the target audience. We believe this is a crucial role as there is no point in having the best advertising if nobody sees the advertisement.

ROLE OF MEDIA IN THE ADVERTISING PROCESS

Media Selection for Rural Marketing. The following points have in be considered while selecting the media for the rural markets :

(i) The total number of literates in the rural market and their reading habits.

(ii) The extent and type of contribution of the product.

(iii) The number of cinemas and video parlours, panchayat viewing and listening facilities and the type of audience.

(iv) The number of publications which are circulated in the area concerned, the number of readers and their categories, whether casual, regular or headline readers.

(v) Whether the publications circulated in the area concerned are issued locally or are obtained from the neighboring areas ?

MEDIA SELECTION DECISIONS

While selecting the advertising media the following factors should be borne in mind:

Cost of advertisement,

Nature of the product,

Comparison of the medium selected with other media,

Popularity of the media,

Characteristics of customers, and

Competition in the market.

TYPES OF MEDIA FOR ADVERTISING

Print Media	Electronic Media	Outdoor Media	Direct Mail
- Newspapers	- TV	- Billboards	- Price Lists
- Direct Mail	- Video	- Hoardings	- Catalogues
-Folders	- Radio	- Balloons	- Personal letters
- Product Literature	- Voice mail	- Advertising on transport means	- Circulars
- Journals	- Cinema	- Electric Display	

STRENGTHS AND WEAKNESSES OF EACH TYPE OF MEDIA

A. Press

Advantages	Disadvantages
News value and immediacy Area and ethnic selectivity Wide market coverage Advertisement flexibility Allow long message Moderate cost Publication with pictures possible Continuous publication.	Casual readers not reading the whole magazine or newspaper High cost of brand usage Little demographic selectivity Short message life Suitable only for educated class Poor quality of printing creating readers' aversion Lack of faith in what appears in the Press.

B. Magazines

Strengths	Weaknesses
Long shelf life Durability of ad message Ad size flexibility Quality reproduction Demographic selectivity May cater to special interest groups More affluent audience Increased response of the consumers in response to the magazine ad. Possibilities of reproducing full colour effect.	Small reach Slow exposure build up Less impact than T.V. Lack of urgency

C. Outdoor-Hoardings, etc.

Advantages	Disadvantages
Attractive	Limited scope
Long life	Lack of personal touch
Advertising at specific places	

D. Direct Mail

Advantages	**Disadvantages**
Possibilities of covering a wide audience Economy Flexibility Easy to answer Personal Touch	Difficult to obtain the right mailing lists. Possibility of misleading information Frequent changes in mailing list

E. Radio

Advantages	**Disadvantages**
Low production cost Wide coverage High frequency possible Audience segmentation like 'Mahila Jagat', 'Krishi Darshan', etc. Flexibility of timing Catching attention of listeners	No visual information No visual impact Low recollection Short message life Small audience per station Very often message not clear Low attention value Lack of detailed advertising

F. Television

Strengths	Weaknesses
Attractiveness Wide reach Opportunity for high frequency campaign Demonstration “how it works” Prestige Emotionally involving	Relative high cost Very brief, lacking details Short message life Production expensive and complicated Long production lead live Lack of TV ownership by all.

G.Cinema

Advantages	Disadvantages
Allow product demonstration Emotionally involving Appropriate for products catering to low income segments	Short message life Cinema losing popularity because of cable operation. Slow exposure build up Long production lead time.

EFFECTIVENESS OF EACH MODE OF MEDIA

Mode	Verbality	Visual Impact	Colour	Processing Time	Reach	Frequency
TV	Low	High	High	Low	High	High
Radio	High	-	-	Low	Very high	High
Newpapers	High	OK	-	High	High	Low
Magazines	High	High	High	High	Low	Low
Outdoor	Can be high	High	High	High	Low	Low
POP	Can be high	High	High	High	Low	Low
Direct Mail	Very High	High	High	Very high	Depends	Very low

ADVERTISING AGENCY

An advertising agency acts as a consultant to the client, the advertiser, in formulating the advertising plans and translating them into an advertising campaign.

Another role of the agency is placing the advertisement in the media, since it has a traditional association with the media. The placement aspect has assumed considerable importance owing to media boom and the resultant complexities.

An advertising agency can be defined as an independent organisation of creative business people who develop, prepare and release the advertisements for the sellers seeking to find customers for their goods and services.

In India, there are about 7,000 advertising agencies out of which 700 ad agencies are recognized by the Indian Newspapers Society (INS). INS is a regulatory organisation regulating ad agencies for

- National Income Accounting
- Annual Billing
- Creditworthiness

The relationship between an advertiser and its advertising agency represents professionalism to the core. At the same time, capability in terms in culture and style of the two parties and the concerned persons is highly facilitatory for a fruitful relationship. Courage and candidness on the part of the agency can contribute much towards getting the client to appreciate the constructive use of a creative approach. It is in the interest of the client to provide the required reassurance to the agency so that communication is inhibited. The selection of an agency by a potential client has a degree of mutuality. A well considered and wise selection can pave the way for a productive relationship.

Functions of Ad Agencies

Ad agency will be in a position to take an objective view of the advertiser's plan and proposals and thus venture to put forward its opinions and comments.

Creative qualified and trained personnel are required for an advertising agency. It may not be worthwhile for an advertiser to have on its permanent staff all the variety of skill required to produce appropriate advertisements.

An agency provides an opportunity as well as flexibility for various combinations of agency personnel from different departments to form a team to work as per the specific requirements of their varied clients.

Advertising agency has regular contacts with various support systems required for the production of appropriate ad material. A major advantage of an agency is its regular dealing with the media and the expertise in developing advertisements to suit the requirements of its clients.

The ad agency's skills can also be useful in the preparation of campaigns where the risks involved are high such as in the introduction of new products.

Clients' Expectations

Account Service: Responsive – prompt - accessible – listens – economical.

Creativity Review: Provide innovative proposals – ideas – visuals.

Production Review: Quality – timeliness – accuracy – economical.

Media Planning: Innovative media strategy – capable of coping with the budget changes – provide media trends update.

Buying Media Space: Explore cost effective alternatives – ability to negotiate attractive terms.

Market Research: Relate existing studies to the specific situation of the client – organize timely and meaningful research.

Retail Advertising and Sales Promotion: Innovative ideas – POP material, creative events – timeliness – economical.

Financial Control: Detailed estimates – accuracy in billing – reasonable rates – mutual trust.

AGENCY EDUCATION PARAMETERS

In India the number of ad agencies is large. Popular ones include: ORG-MARG, MART, Sampark, R.K.Swamy associates, Mudra, Chitra, and Ogilvy and Mather. In choosing the agency the following parameters deserve attention.

- Knowledge of Client's Business
- Contribution to Market Planning
- Responsiveness to brief
- Listen, understand pro-act (be responsive)
- Develop Strategies and Plan Creativity
- Ability to involve Key Agency Resources
- Readily Accessible
- Cost Consciousness

- Effective Event Planning

MEASURING ADVERTISING EFFECTIVENESS

Good planning and control of advertising depend critically on measurement of advertising effectiveness. A lot of effort is, therefore, spent on fundamental research on advertising effectiveness.

The most important measurement of advertising effectiveness is of an applied nature, dealing with specific ads and campaigns. Most of the money is spent by ad agencies on pre-testing ads, and much less is spent on post-evaluation of their effects.

Many companies develop an advertising campaign, put it on the national market and then evaluate its effectiveness. It would be better for them to limit their campaign to one or a few cities first and evaluate its impact before rolling the campaign throughout the country with a very large budget.

Measuring advertising effectiveness could be of two types according to the objectives of the advertisers:

Communication Effect Research,
Sales Effect Research.

Communication Effect Research

The study seeks to discover if advertising is achieving the intended communication effect. This method is also known as "Copy Testing". The objective of this research is an improvement in the present system.

The testing can be categorized into two types:

Pre-testing of advertising campaign, and
Post-testing of advertising campaign.

Three major methods of ad pre-testing are:

- Direct Rating

- Portfolio Test
- Laboratory Test

Direct Rating

In this type, respondents are asked questions to rate the alternative ads. These ratings are used to evaluate an ad's attention, read through, cognitive, effective and behavioural strengths.

The following steps can be adopted.

Evaluate ad's

- Attention strength
- Read through strength
- Cognitive strength
- Effective strength
- Behavioural strength

Method of evaluation through rating scale.

Primarily helps in screening out poor ads rather than identifying great ads

Questions

1. "Money spent on advertisement is not wasteful." Critically examine this statement.
2. What are the objectives of advertising? Discuss the major ones?
3. What are the uses of advertising to various parties? Discuss?
4. How are the advertising functions organized in an organization?
5. Differentiate between the Advertising and Salesmanship?
6. What is advertising? Discuss its objectives and point out the problems of advertising in India?
7. Define Sales promotion? What are its objectives? Describe the various

steps to be taken for promoting the sales of a big concern?

8. What are the various steps to be followed in planning the sales promotion?

****

Lesson 5.6 - Sales Force Decision

Sales Force Decision is generally termed as the backbone of marketing. Brech defines it as "overall management of sales and it refers to only a socialized application of the process of Management as a whole." According to the American Marketing Association the "planning, direction and control of the personal selling activities of a business unit include recruiting, selecting, training, equipping, assigning, rating, supervising, paying and motivating as these tasks apply to the personal sales force." The ultimate objective of Sales Management is to influence the consumers of the target market to get sales orders. A sales force serves as a company's personal link to customers.

Functions of A Sales organization

1. Analysing markets and sales policy.
2. Sales planning and sales forecasting
3. Deciding prices and terms of sales.
4. Selecting, training and controlling the sales force.
5. Deciding Sales programmes and sales promotion.
6. Advising about advertising and publicity.
7. Deciding and allocating territory and setting targets.
8. Preparing and maintaining customers' records, etc.
9. Preparing Sales Reports.

STEPS IN DESIGNING AND MANAGING A SALES FORCE

- Setting of Objectives
- Training for Sales Policies

- Designing Sales Force Structure and Size
- Deciding Sales Force Compensation
- Recruiting and Motivating Sales Force
- Guiding and Motivating Sales Force
- Performance Rating of Sales Force

Organising and Managing a Sales Force

Sales force is regularly assigned particulars territories. Various factors are taken into account in deciding on the physical size of a territory, transportation links within territory, purchasing power of consumers and their educational and living standards.

Therefore, a sales force is deployed according to the geographical and product or consumer requirements. A company should also devote considerable effort in training and development of its sales force. There are two types of training which can be provided to sales force : (a) In –house training, and (b) on –the-job training. It is also necessary for a company to arrange periodic meetings and discussions with its Sales Force. Finally, the performance can be evaluated on the basis of targets and actual.

Sales Manager's Duties and Responsibilities

The Sales Manager is the most important person in a Sales organization. All Activities are based on his functions and responsibilities.

The following are some of the prime duties of a Sales Manager.

1. Organising sales research, product research, etc.
2. Getting the best output from the sales force under him.
3. Setting and controlling the targets, territories, sales expenses, distribution expenses etc.
4. Advising the company on various media, Sales promotion schemes, etc.
5. Monitoring the company's sales policies.

Reid gives the following chart of the steps necessary for getting success in selling :

To Yourself	To the Company	To our Customers
Increase basic selling skills.	Be proud of your association with you company.	Work closely with decision takers and influencers in each account. Point out the advantages of an association with our company . Keep accounts current On all company advertising and promotional activities.
Study the latest products, promotion policies and procedures. Be alert to new sales and merchandising ideas.	Growth and developments in your territory. Be prompt in handing records, reports, correspondence, etc. Cut selling costs by economical routing, good use of time, planning and greater awareness of opportunity.	Suggest ideas, methods, techniques and tips that can stimulate sales. Inform the customers about the trends in their areas.
	Strive to reach the best goals	Make the customers aware of the changes in the company's policies or procedures.

	Ask for help, when you need it.	Stimulate and maintain enthusiasm for your products.
	Co-operate with order departments of the company.	Build and maintain good will.
Grow so that you can assume greater responsibilities as opportunities permit. Maintain the appearance and deportment expected of a Territory Sales Manger. Analyse your weak and strong points and then think about them.	Check demand and movement of products in the territory. Report activities of the competitions	Handle complaints effectively and to the complete satisfaction of the complainants. Suggest the best technique For selling our products to the customers. Organise presentations to inform and save time.

Source : Reid, A.L., Modern Applied Salesmanship 1971, p. 418

OUTLINE FOR COMPILING SALES JOB DESCRIPTIONS

Sales

- Make regular visits
- Market the full line
- Handle questions and objections
- Check finished goods stock
- Interpret sales points of the line to the customer
- Explain company policy on credit, merchandising, stock

rotation, etc.

- Get the order
- Install product displays and other POP's
- Report product weaknesses, complaints
- Handle adjustments, returns, and allowances
- Handle request for credit
- Handle special orders for customers
- Establish priorities, if any

Territory Management

- Arrange route for best coverage
- Balance effort with the customer against his potential volume
- Maintain sales and important territory records.

Sales Promotion

- Develop new prospects and accounts
- Make calls with customer's salesmen in areas where "stockiest" are in force
- Train the personnel of wholesalers, distributors, stockiest, etc.

  whenever requested by them.

Sales Executives

- Each right make a daily work plan for the next day.
- Organise field activity for minimum travel and maximum calls
- Prepare and submit special report on trends, competition
- Prepare and submit daily reports to home office.
- Collect and submit daily reports to home office.

- Attend sales meetings
- Collect overdue accounts
- Collect credit information

Goodwill

- Counsel customers on their problems
- Maintain loyalty and respect for the company

Source: S. Ramachandran, Field Sales Management, pp. 10-11

Sales Supervision

Sales supervision consists of giving instructions to sales force and seeing that they are carried out . Good supervision involves the development of skills in working with people and influencing them to do what you want them to do, and do it well.

It is true that salesmen are made, they are not born because, they are trained by their superiors. Personality, the ability to get along with people, was considered all-important. There are three areas in which sales trainer can impart the training to the sales force :

1. Product Training

It is most important that a salesmen must be thoroughly familiar with his product as well as product ranges. Proper emphasis should be given to teach product information in terms of the benefits which can be obtained by the customer. Salesmen must know the following aspects of the products:

- Technical features
- Technology
- Quality
- Packaging
- Grading

- Branding

2. Selling areas

- Product history for sales quota attainment in each territory.
- Sales ratios
- Workload per sales person
- Bills receivable analysis
- Sales analysis report

3. Selling Skills

The sales person should be good in human relations and should have the following qualities :

- Good Appearance
- Good Communications
- Self - Confidence
- Creative
- Proud of his association
- Satisfy the curiosity of customers
- Up – to –date knowledge of products

Takes of Sales organization

Organising the sales force is a typical sales management task, since its has direct impact on the sales manager's job performance. The universal adoption of the marketing concept has meant that most companies have reorganized their sales and marketing activities to reflect the stronger commitment to their customers. This trend has enhanced the importance of Sales force organization.

Developing a Sales Organisation

Developing a Sales organistion structure is not an easy task. The key to organizational design are consistency and coherence. The importance is highlighted as:

"Spans of control, degrees of job enlargement, forms of decentralization, planning systems and matrix structure should not be picked and chosen at random. Rather, they should be selected according to internally consistent groupings, and these groupings should be consistent with the situation of the organization – its age and size, the conditions of the industry in which it operates, and its production technology".

This means that sales managers must recognize, and then deal with, some basic organizational issues when developing a sales organization. The five major issues are :

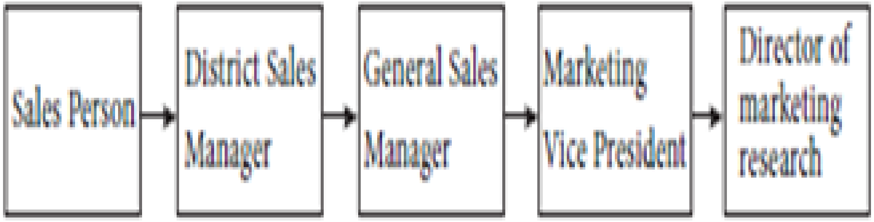
1. Formal and informal organisations

Every organization has a formal organisation and an informal organisation. The formal organisation is the creation of management, whereas the informal organisation is often developed from the social organisation. Also called the grapevine, the informal organization is basically a communication pattern that emerges to facilitate the operation of the formal organisation.

Consider the case of a field salesperson who is responsible for collecting certain competitive information, such as prices and trade discounts. If this information were forwarded through the formal organization, the data would be outdated and would be useless to management. The informal communication system, however, allows the information to be transmitted directly to the director of marketing research. The figure on page 490 shows an informal communication pattern that might exist in a marketing organization.

The figure below shows a lengthy formal communication channel:

LENGTHY FORMAL COMMUNICATIONS CHANNEL

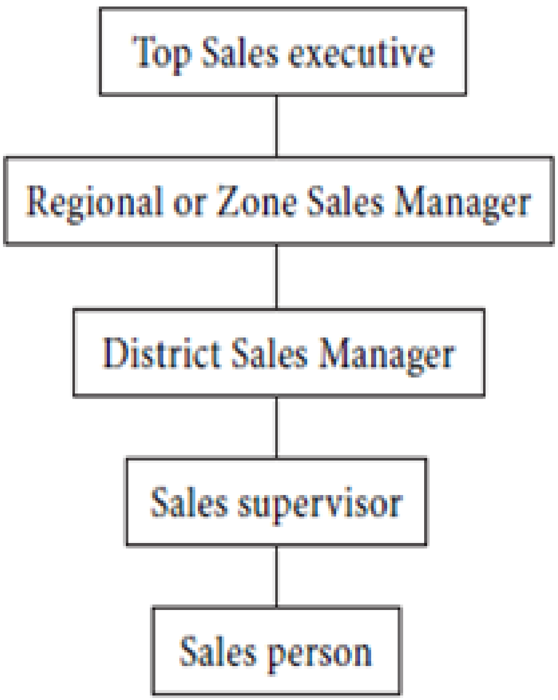


2. Horizontal and Vertical Organisations

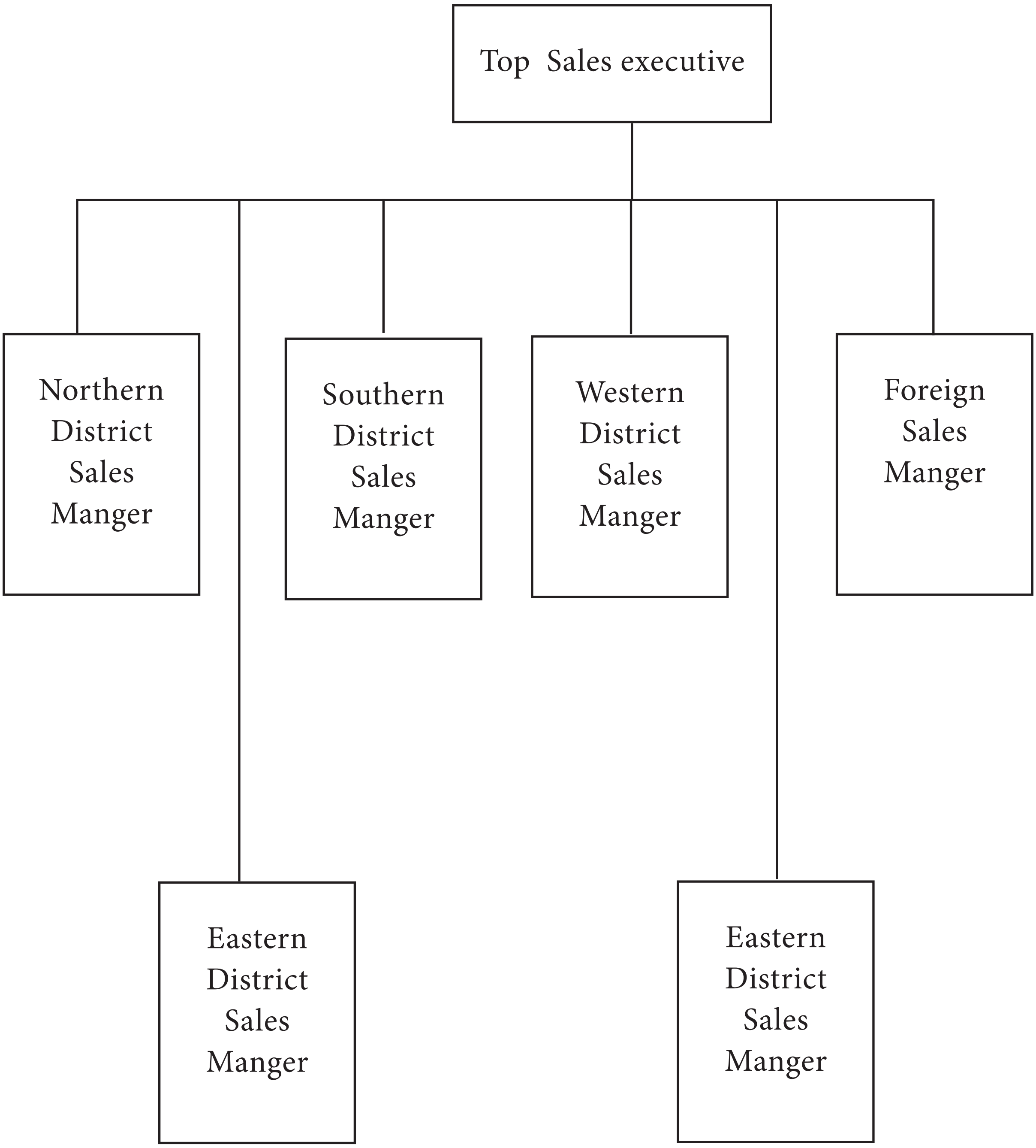
Sales force can have either horizontal or vertical organizational format.

The arrangement varies among companies, even within the same industry. The factor that determines whether a vertical or horizontal organizational structure should be employed is the effective span of control. The span of control refers to the number of employees who report to the next higher level in the organization. The following figures shows the formats of vertical sales organization and horizontal sales organistion.

Vertical Sales Organisation



Horizontal Sales Organisation



3. Centralized and decentralized organisation

In a decentralized organisation, responsibility and authority are delegated to lower levels of sales management. In a centralised sales organization, the responsibility and authority for decisions are concentrated at higher levels of management.

A related concern is the degree of centralization in the sales organization. This issue has to do with the organizational location of the responsibility and authority for specific management tasks.

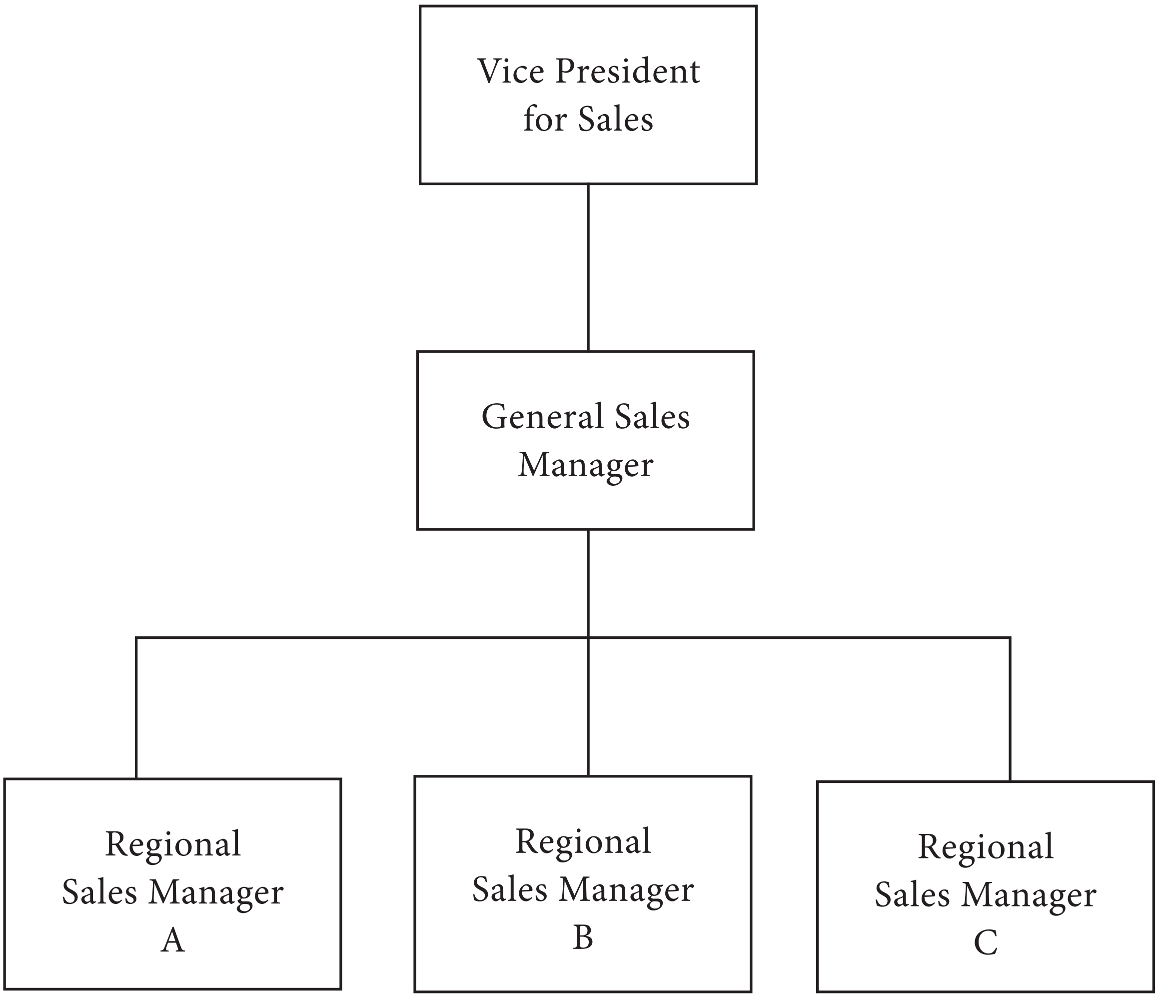
A decentralized organization structure is ineffective unless commensurate responsibility and authority accompany the assignment of decision to a specific level of sales management.

4. Line and Staff components

Marketing organizations also feature line and staff components. A line function is a primary activity and staff function is a supporting activity. In a marketing organization, the selling function is the line component, whereas advertising, marketing research, marketing planning, sales training and distributor relations are usually considered staff roles.

The following figure and the figure on the next page show a' line marketing organsation' and a 'line and staff marketing organsation'.

A Line Marketing Organistion



MOTIVATING AND LEADING THE SALES FORCE

There are several rules which help a sales manger in developing sales force through motivation and leadership.

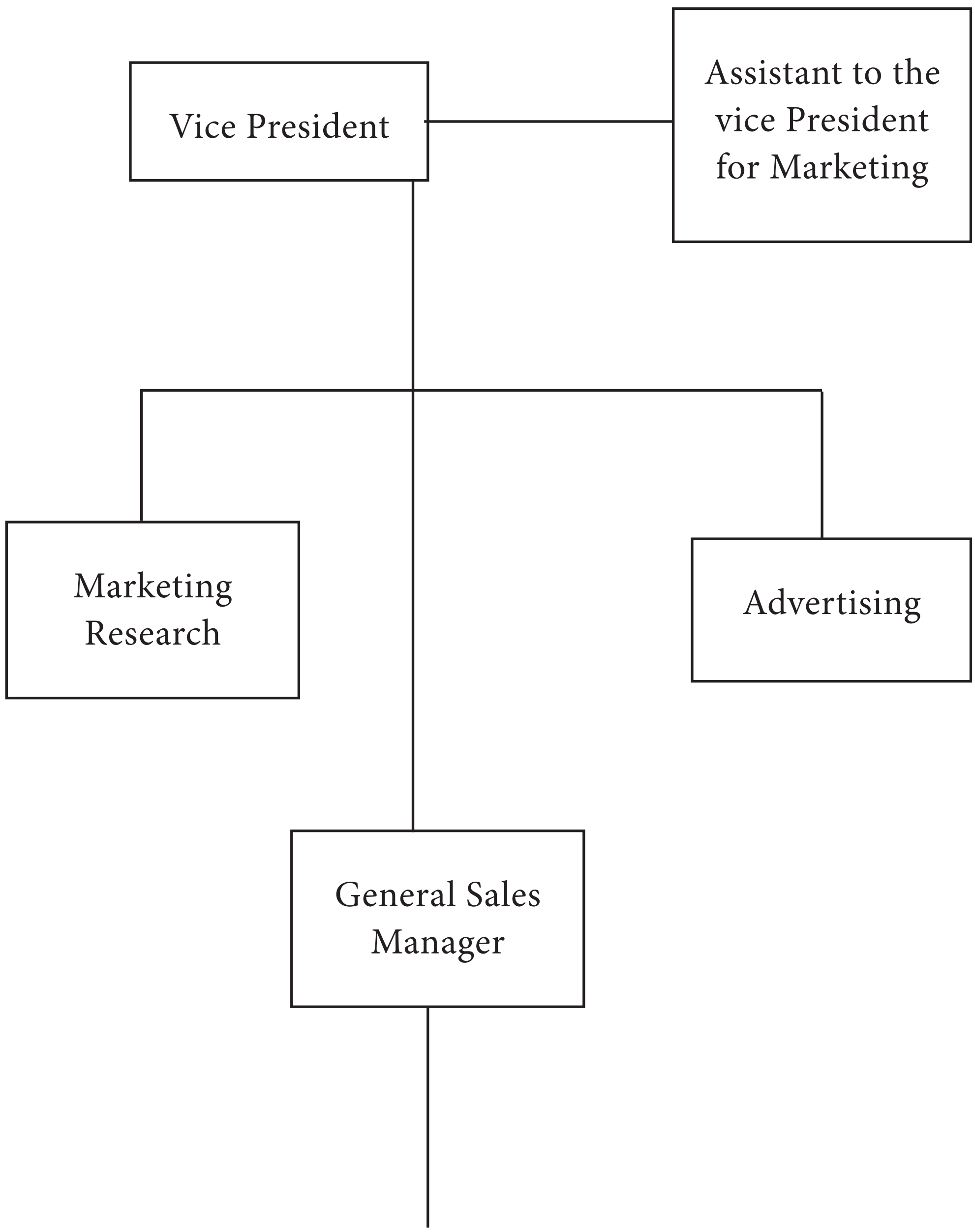
Rule 1

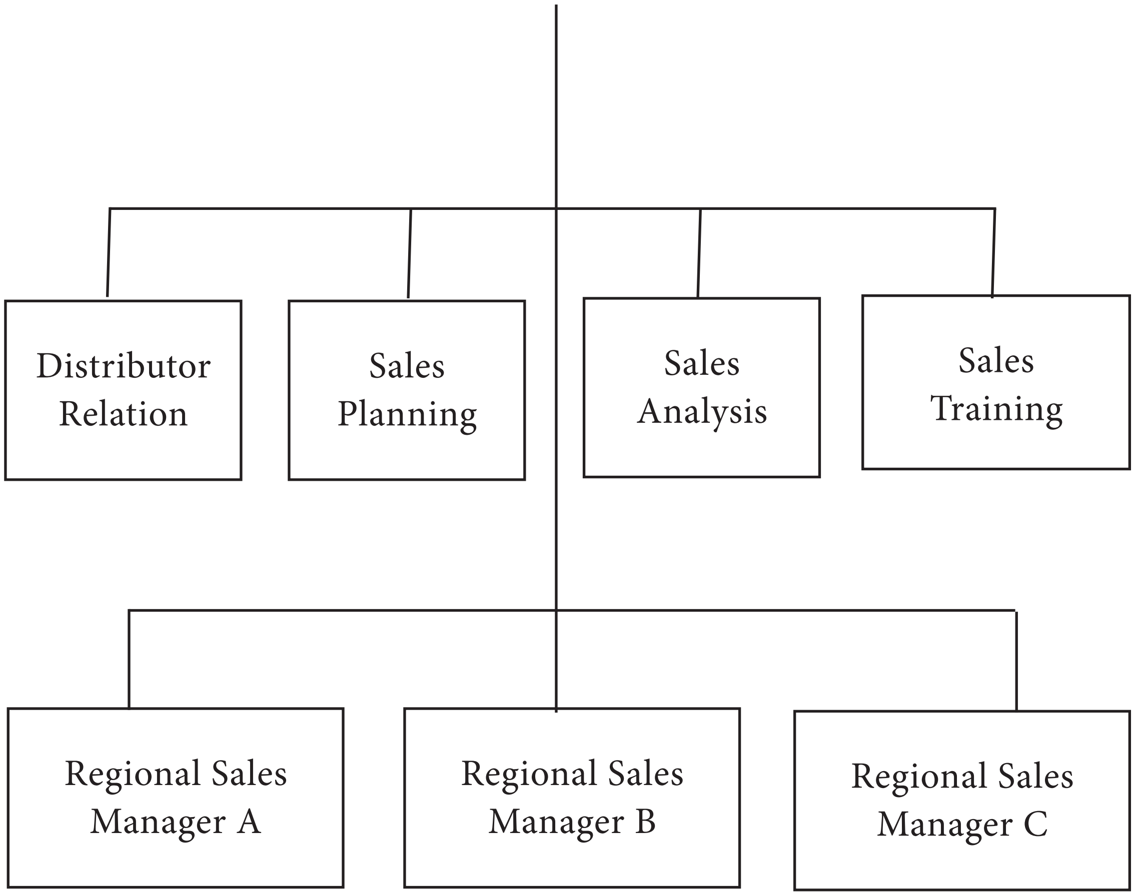
Work with sales team and not as members of groups. To achieve this, do the following :

- Know your sales force personally

- Give extra time for discussion and personal problem solving.
- Do proper home work on sales assignments, be clear to the point of a fault, avoiding personal affront.
- Explain your reason for change in territory and product likings. Change is always for the better.
- Learn from your sales force about their hopes, aspirations, abilities and self worth.

Line And Staff Marketing Organisation





Key ----- Line organization

_____ Staff Organization

- Develop creative personality traits for example : Self esteem, self confidence, self worth to become a self starter and freedom from fear of failures.
- Assume responsibility for mistakes, that is, be pro-active.
- Be internally motivated.

Rule 2

- Set high standards but realistic ones for your sales force.
- Set high personal examples and accept mistakes as errors of judgment.
- Ensure frankness in criticism which is self rewarding and educating to others.

Rule 3

Ensure that sales force are collaborative among themselves, that is , they work as a team and make full use of each other for collective goal achievement through.

- Good means of communication, open and purposive.
- Fostering full co-operation among seniors and juniors.
- Developing individual capabilities, creative attitude and respect for each employee.
- Encourage juniors to settle their own grievances themselves, rather than letting them rush up to you.

Rule 4

Fight for your people and for your ideas :

- You are responsible for people under you ; so protect and promote them.
- Support the men in trouble, don't be afraid of telling the faults of superiors against the juniors.
- Help them in progress, get promotions, get noticed and remunerated.

Rule 5

- Retain the principle of accountability as a check on exercise of delegated authority.
- Promote the right 'men', pay right salaries and perks and put them in positions as deserved by them.
- Pursue the policy of promotion from within as a win-win strategy.
- Accept sales force feelings. Encourage them to open up, to address you as a friend in reed.

Personal Selling

This is a promotional tool. It is the oldest and a very lucrative and effective tool of promotion. Here the foot soldiers have the responsibility of promoting the product. Sales people form the very important part of a marketing group. According to 'AMA' :

Personal selling is oral presentation to a buyer for the purpose of making sales'.

Basically, it is an art to persuade the customer to buy the product. A sales person should have the persuasive power. In addition a good sales person must have a detailed knowledge about four things :

1.Company

2.Competitors

3.Consumer

4 . Product

A sales person should have positive attitude. Personal selling involves personal confrontation, i.e., presentation should be lively. We can make changes according to the feed back and therefore it is a bit flexible tool as compared to advertisement.

In personal selling, some kind of a lasting and social relationship develops. This personal touch can only come in personal selling. Another advantage in the personal selling is that it can be used for consumer as well as for industrial goods.

When Personal selling is required

1. When the product requires some kind of demonstration.
2. When the market under consideration is comparatively smaller.
3. For the specific needs of the customer, i.e., in case industrial goods.
4. For selling a service, e.g., five star hotels, banking etc., sales people have got an edge.
5. When you have got an edge.

6. When you have got big orders.

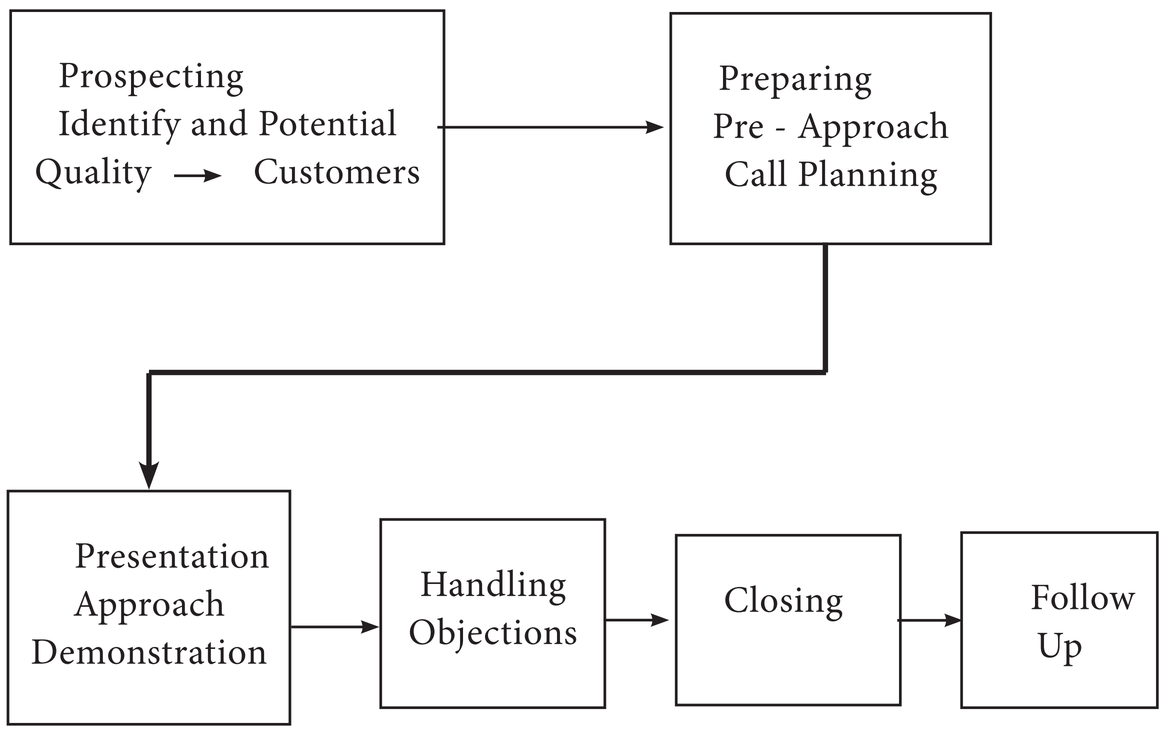
7. When confidence is to be built up in the minds of customers.

Objectives of Personal Selling

Personal selling has been defined as the oral presentation to prospective customers of one's goods and services for the purpose of ultimately making a sale.

All selling processes contain the same basic steps, though the detail of each step and time required to complete it, will vary according to the product that is being sold. For example, a door –to – door sales representative may go through all the steps from prospecting to closing of sale in a matter of ten to fifteen minutes ; in contrast, the selling process for computer or electronic typewriter may take several visits, even years, for getting an order. The selling process is shown below :

The Selling Process

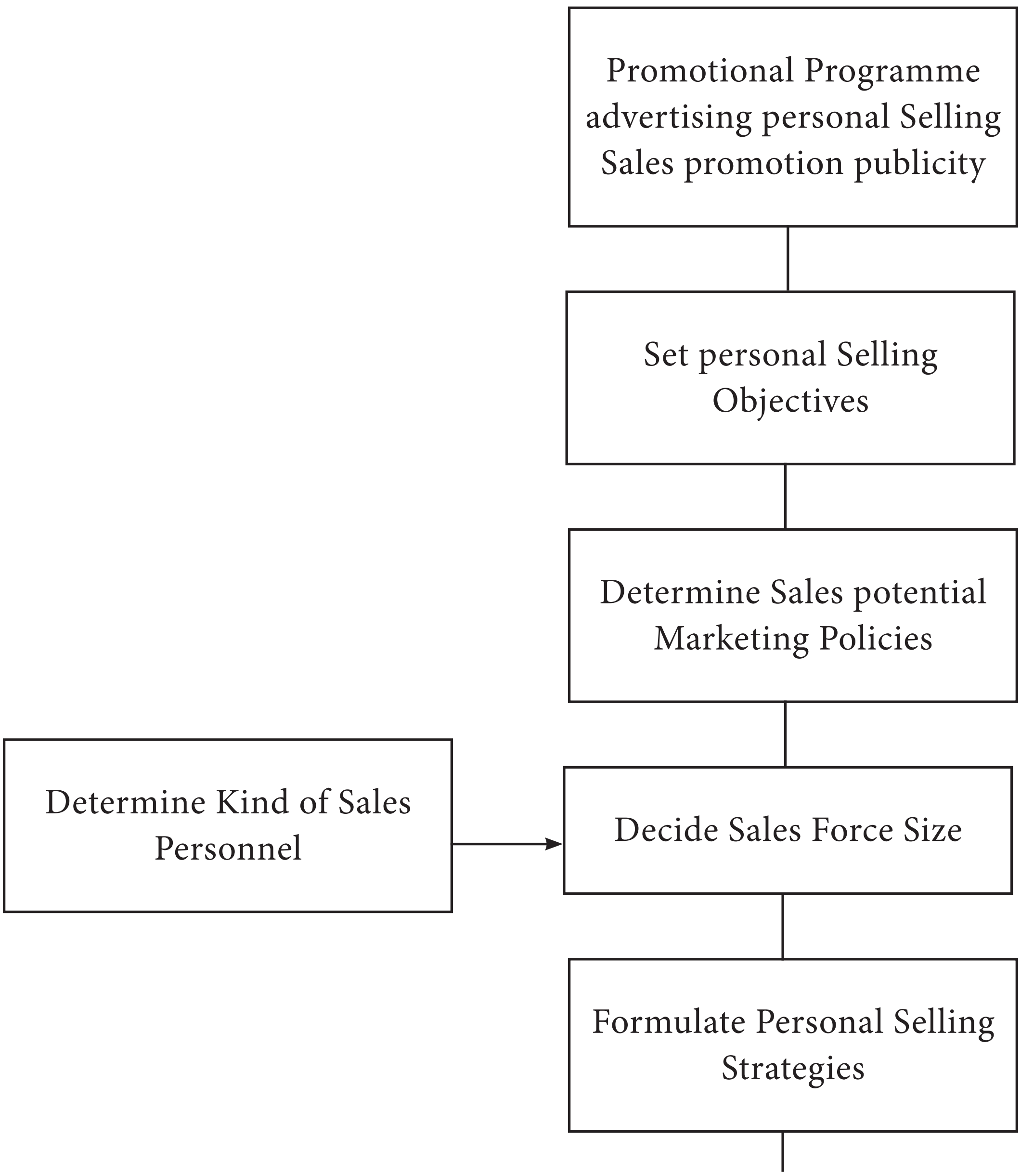


Source : Sales Management Concepts, Practices and Cases by Eugene M. Johnson, David L. Kurtz, Eberhard. E. Scheuing, McGrow- Hill Book Company.

Objectives of personal selling can be briefly stated as sales, profits and growth for the organization in a continuum in order to ensure its survival. The following objectives are achieved through personal selling :

1. To carry out the complete selling job when some elements of the promotion mix are missing.
2. To serve the existing customers efficiently and effectively.
3. To look for new perspective customers for new / more orders.

PERSONAL SELLING MANAGEMENT CHART



Determine Sales Budget

Manage the sales Force

--- Recruiting and selecting
--- Training and Development
--- Motivating
--- Compensation
--- Assigning to Territories
--- Routing and Scheduling
--- Evaluation and Supervising

Evaluation of personal selling programme

4. To encourage the existing customers for their co-operation in the promotion of the various products of the company.
5. To keep the consumers informed time after time about the various changes in aspects of the marketing strategy and the product line of the company.
6. To provide complete assistance to the customers for selling the product line.
7. To provide proper assistance and advice to the customers regarding certain complicated products and the products for specific uses.

8. To assist and advise regarding the training programmes for the sales personnel of the middlemen / dealers.
9. To help the dealers in their management and related problems.
10. To collect recent information regarding the market and report this to

the company (Information of company's use)

The quantitative objectives are assigned for a short term and they keep on changing depending upon the market situation from time to time. They are :

1. To retain the existing market share and try for increasing it.
2. To increase the sales volume and hence the profits. It also includes the striking of a proper balance between the different elements of the marketing mix of the different products of the company.
3. To make attempts to open new accounts and maintain the existing ones properly, effective and efficiency.
4. To exercise expense management and to keep the expenses within limits.
5. To achieve the targets and try to exceed them.

THEORIES OF SELLING

Old Approach

Generally the selling theories emphasized 'What to do' and 'How to do' rather than 'Why to do'. The theories are based upon the practical and experimental knowledge accumulated from the years of " living in the market", rather than on a systematic, fundamental body of knowledge. The second or the new approach made use of the findings of the behavioural sciences. Theories according to the new approach :

1. AIDAS theory of selling – seller oriented

2. 'Right set of the circumstances' Theory of Selling – Seller – oriented.

3. 'Buying Formula' Theory of Selling – Buyer -oriented

4. 'Behavioural Equation' theory – Buyers' decision process.

AIDAS Theory of Selling : In this theory AIDAS stands for

A - Attention
I - Interest
D - Desire
A - Action
S - Satisfaction

This theory tells about the consumer readiness stage. It is a psychological theory of selling which tells us about the consumer mind – the stages through which the mind passes. These stages are attention, interest, desire, action and satisfaction. This theory tells about the fact that the salesman should make the consumer pass through these five stages so that the purchase should occur.

Phase – I – Securing Attention

1. Get the appointment with the consumer
2. Salesperson must show mental alertness and be a skilled conversationalist.
3. He should establish a good rapport at once and should be a conversation opener.
4. He should do his homework properly.
5. Good conversation opener causes the prospect to relax and sets stage for the overall presentation.

Phase –II – Gaining Interest

This deals with the evolvement of the strong interest of the consumer in the product, to develop a contagious enthusiasm for the product and to give facts and figures about the product. There should be a strong selling appeal to make their interest in the product. There should be a strong selling appeal to make their interest in the product very effective. Also the attitudes and the feelings toward the product should be clarified. Sales – person must take all these into account in selecting the appeal to be emphasized.

Phase III –Kindling Desire

Here the interest of the consumer is to be converted into the desire for buying the product. The ways should be found to face and dispose of the sales obstacles, the consumer objections, external interruptions, digressive remarks, etc. The consumer should be satisfied in all respects and all of his doubts should be cleared.

Phase IV – Inducting Action

The perfect presentation results in the readiness of the consumer to buy the product. All this requires experience of the sales personnel as the buying is not automatic and it should not be closed until the sales persons are positive that the right time has come. Most prospects find it easier to shy away from the hints than from frank requests for an order.

Phase V – Building Satisfaction

After the purchase generally the customer passes through the state of mental cognitive dissonance in post – purchase anxiety. Now this is the job of the sales person to relieve him of this tension and convince him that him decision was correct. Building satisfaction means thanking the customer for the order and also to make the customer feel delighted and also to assure him of the promises made by the salesman.'Right set of circumstances' Theory of Selling : This theory is the 'situation response' theory which tells that everything was right for the sale. It also states that the skills of the sales persons have a lot of effect on the sales to take place. Also, if the sales persons have a lot of effect on the sales to take place. Also, if the sales person presents the proper stimuli or appeals, the desired response will result. This theory tells about two types of factors which constitute the set of circumstances. The factors are internal and external. This theory stresses the external factors at the expenses of the internal factors. This is a seller – oriented theory and stresses the importance of the sales persons in the process of selling of a product. The major drawbacks of this theory are : 1. It does not take care of the internal factors. 2. It fails to attach appropriate weight to the response side of the situation – response interaction.

'Buying Formula' Theory of Selling

This theory is buyer –oriented theory. This is a psychological theory and takes care of the buyer – related problems and revolves round the buyer. This theory explains the cognition process which goes on in the mind of the buyer when he has to take the decision regarding to buy or not to buy. This theory has come through various stages of its development and thus has taken its present picture. When a buying habit is being established, the buyer must know why the product or service is an adequate solution to the need or problem, and why the trade name is the best one to buy.

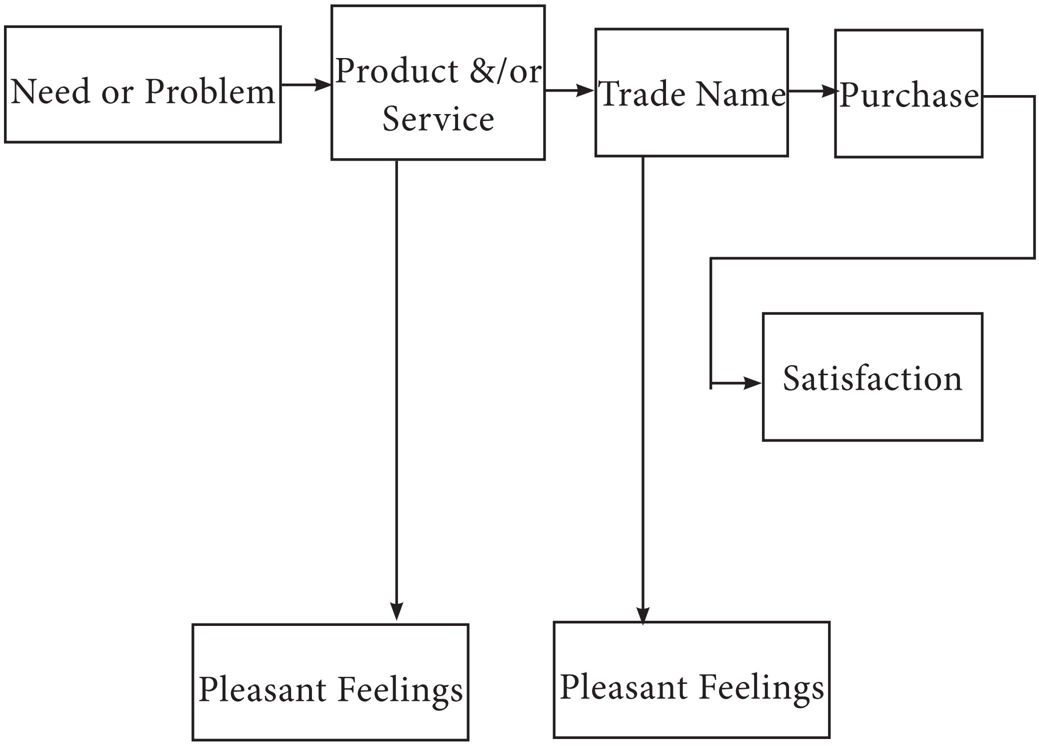
This theory tells that :

1.The need should be created/ Emphasized.

2.The relation between the need and the product or service should be emphasised.

3.The brand image should be created.

4. The need, product/ service and the trade name / brand image should be associated with each other.



5. The brand loyalty and the customer delight should be emphasized.

'Behavioural Equation' Theory

This theory takes care of the buyer's decision making process and goes in the detail of the process at the micro / internal level. The buyer goes through various stages of learning process. The essential elements of the learning process are :

1. Drive (Motivation)
2. Cue
3. Response
4. Reinforcement

Drives are strong internal stimuli which impel the buyers' response. These drives are of two types. They are 1. Innate drives – psychological or biogenic drives and 2. Learned drives – social drives. Cues are the weak stimuli that determine when the buyer will respond. There are 2 types of cues :

1. Triggering cues – activate the decision process.
2. No triggering cues- influence but does not activate the decision process.

Response is what the buyer does.

Reinforcement strengthens the buyer's tendencies to make a particular response.

Hence this theory takes care of the behavioral aspects of the buyer and how it influences his decisions and his learning process. This also tells about the sales person's role in all this to make it happen and at the same time it reduces buyer dissonance.

SALES STRATEGIES

Sales strategies are the policies which are made to provide the guidelines for taking key decisions in personal selling. It includes the following :

1. Size of the sales force required
2. Kind of the sales force required
3. Roles of the sales person
4. Assigning of the sales territories.

The effectiveness and the efficiency with which these roles are played by the sales force, determine the extent to which overall personal selling objectives are achieved. The company's competitive posture is shaped by :

1. Product Market Analysis
2. Sales person's order securing analysis
3. Choice of the basic selling style :
   (a) Trade Selling
   (b) Missionary Selling
   (c) Technical Selling
   (d) New business selling

The size of the sales force can be determined by utilizing one or more of the following methods in combination with each other :

1. Work Load Method
2. Sales Potential Method
3. Incremental Method

Individualizing selling strategies to Customer

The acid test of the appropriateness of personal selling strategy comes when particulars salespersons interact with particular customers. The Management makes its first key decision on personal selling strategy. When it determines the size of the company's sales force, each salesperson must individualise his own dealing with each customer.

The decisions of the above kind are implemented after the required kind and size of the sales force has been recruited, trained and assigned their fields and territories. The strategies should be such so as to benefit the customer and help the firm in achieving its objectives. The strength of the sales force depends upon its communication and convincing power to persuade the customer to buy the product.

The approach of the sales person towards different buyers is a matter of his selling skills. This skill is the function of the pre-planning and performance on the call of the sales person itself.

The individual members of the sales force determine the success and failure of the company's overall personal selling strategy and sales management. The efficiency and effectiveness of the sales management in the personal selling field. The sales persons should combine their efforts in such a way so as to achieve their personal objectives through the achievement of the firm's objectives.

Questions

1. What do you mean by personal selling? What is the importance of personal selling?
2. What are the advantages and disadvantages of personal selling?
3. How is personal selling different from advertising?
4. Discuss the process of selling? Also discuss the AIDA concept of personal selling?
5. What is sales management? What are the various functions of sales management?
6. Explain the basic theories of sales management?
7. What is meant by training of sales personnel? Discuss?

Case Study

Volkswagen

Volkswagen, the fifth-largest automaker in the world, was founded in 1937. The first prototype was actually built in 1935 by Ferdinand Porsche, founder of the car company bearing his name, who had been commissioned by Hitler to build a "Peoples Car."

Volkswagen began selling its Beetles in North America in 1949, a year in which only two of the vehicles sold in the United States for $995 each. By 1955, the company had sold one million vehicles worldwide. Today, Volkswagen manufactures a number of other car brands, including Audi, Lamborghini, Bugatti, Bentley, Rolls-Royce, Skoda, and Seat.

Growth Years

With the help of creative and effective marketing, Volkswagen became a household name in America during the 1960s. The company's marketing program in the United States during this decade was designed to make the brand's underdog status an advantage.

This was accomplished with self-deprecating advertising that made light of the Beetle's shortcomings. Some memorable slogans for the Bug include "Think Small," "It's Ugly But It Gets There," and "Nobody's Perfect." These self-effacing slogans ran counter to the advertising tradition of U.S. automakers, which usually involved lofty descriptions of a car's style, power, grace, and superior design.

The classic Beetle rapidly became a cult favorite, then a popular favorite, and eventually was to become the number-one selling car in history with over 22 million units sold. Volkswagen was not afraid to use the occasional hard sell.

One particularly persuasive print ad paired a Volkswagen with a snowplow and a heavy blanket of snow on the ground and asked, "What do you think the snowplow driver drives to work?" Volkswagen also developed a stylish automobile called the Karmann Ghia, which was humorously advertised as the car "for people who can't stand the sight of a Volkswagen."

Decline and Recovery

After sales of VW cars in America peaked at 569,000 units in 1970, cutthroat competition among compacts, especially from Japanese manufacturers, hurt Volkswagen's sales. The company also made an unfortunate marketing move that compounded its problems.

It "Americanized" its image, by advertising the opening of an VW assembly line in Pennsylvania—the first U.S. assembly line set up by a foreign auto maker—at a time when imports were become popular. The 1980s were not much better for the company, as sales continued to decline.

By 1990, Volkswagen was looking for ways to revitalize its business in the United States. Sales had slipped to a mere 1.3 percent of the American market from a high of 7 percent in 1970. The company developed an advertising campaign that centered on the word Fahrvergnugen, German for "driving pleasure."

This strategy was considered a risk at the time because many assumed Americans would not adopt a German word as a slogan. The hard-to-pronounce word nevertheless became an instant pop-culture buzzword, but U.S. sales continued to drop to under 50,000 units. The company clarified its brand message under the umbrella of the "Drivers Wanted" slogan in 1995, and U.S. sales rose 18 percent to 135,907 cars in 1996.

Classic Influences Tempt Consumers

In 1998, Volkswagen released a modernized version of its iconic Beetle to a car-buying public nostalgic for the vintage style. Ads for the New Beetle echoed the irreverent humor of the ads from the 1960s, with one ad reading "If you sold your soul in the '80s, here's your chance to buy it back."

Another ad emphasized the difference between the modern engine and notoriously underpowered traditional Beetle with the slogan "Less Flower, More Power."

American buyers leapt at the chance to buy the classically influenced—but clearly modern—cars, often at well above sticker price.

Waiting lists for the new cars, which sold more than 55,000 units in 1998, were common. The company also experimented with the Internet as a marketing and sales medium, holding a special Web-only launch of 2,000 New Beetles in two previously unavailable colors, Reflex Yellow and Vapor Blue. Volkswagen sold out its inventory immediately.

By drawing consumers into Volkswagen showrooms, the New Beetle helped the company achieve 50 percent growth in sales volume between 1998 and 1999.

In 2001, the company unveiled its latest retro offering—the Microbus—as a concept car. The car, not expected to be available to the American public until 2003, will likely set off another wave of nostalgia and help the company achieve further sales growth.

Other new models slated for introduction include a sport utility vehicle and a luxury V-8 Passat sedan designed to compete with BMW and Mercedes. Volkswagen's history of brilliant marketing will likely lead to success for these new models.

(Source: Marketing Management , Philip Kotler)

Questions

1. What are some of the ways in which Volkswagen epitomizes the meaning and value of the marketing concepts in the text?
2. Suggest creative extensions of VW's marketing tactics and strategies in applications of advertising, promotion, public relations and other promotional techniques?

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