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CHAPTER 3

CONCEPTUAL BACKGROUND OF THE STUDY

3.1. INTRODUCTION

When an entrepreneur enters into the new profession/ business he must go for market research i.e. he have to study current situation of industry, recent market trends, future of industry, existing competitors etc. It also involves study of market potential, marketing mix, consumer behavior about the product etc. There are various methods to analyze the market potential. Creating a successful marketing mix that will increase results often takes experimenting and market research. There are many methods that can be used, both in person and the use of impersonal presentations. The key is to not always depend on "one" mix always explore other avenues. The combining and coordination of these elements will be more effective than depending on one. You must coordinate all elements so that the prospective consumer is not being sent mixed messages that can cause confusion.

3.2 MARKET POTENTIAL

Market potential describes the maximum capacity of a defined market for a specific product / a service within a defined time period. In this context market refers to the total of all potential consumers with a certain need or desire who are willing or able to satisfy this need or this desire through the purchase of products / services. The sales potential can then be derived from the results of the market potential analysis. Market potential consists of the upper limit of total demand which would theoretically be converged on at (infinite) rise of marketing expenditures of all relevant providers

3.2.1. DEFINITIONS OF MARKET POTENTIAL

The various definitions of Market potential are as follows,

1) "It is an estimate of the maximum possible sales opportunities present in a particular market segment and open to all sellers of a good or service during a stated future period."[8]

[8] Kotler, Philip. (1997). Marketing Management: Analysis, Planning, Implementation, and Control. (9th ed.) Upper Saddle River: Prentice Hall, 1997.

2) Estimated maximum total sales revenue of all suppliers of a product in a market during a certain period[9]
3) An estimate of the maximum possible sales of a commodity, a group of commodities, or a service for an entire industry in a market during a stated period.[10]
4) The total level of sales achievable in a market assuming that every potential customer in that market is buying, that they are using the product on every possible occasion, and that they are using the full amount of product on each occasion.[11]
5) The maximum achievable combined sales volume for all sellers of a specific product during a specific time period, in a specific market.[12]

3.2.2. STEPS FOR ANALYZING MARKET POTENTIAL

Market analysis services from Mapping Analytics will help to know the economic opportunity available in any geographic market. Whether we sell to consumers, to businesses, or both, market sizing provides intelligence we need to deploy sales and marketing resources effectively.

There are three steps to analyze the market potential for any product namely Market Identification means to identify product's market, Market Motivation which is related to detect the reasons why customers buy the product and the reasons why potential customers might buy it and last is to analyze the market potential.

A) MARKET IDENTIFICATION

Market identification requires to find out who buys the product i.e customer, Who uses it i.e. consumer, Who are the prospective buyers and/or users? etc. Companies have to find out the answers of these questions in internal records, field research.

In consumer goods marketing e.g. buyer, users and prospects are identified and classified according to characteristics as; age, sex, education, income and social class while in industrial goods marketing e.g. buyers, users and prospects are identified and classified by size of firm, type of firm, geographical location etc.

[9] http://www.businessdictionary.com/definition/market-potential.html 18/05/2010 10.12

[10] http://www.marketingpower.com/_layouts/Dictionary.aspx?dLetter=M 18/07/2009 9.00pm

[11] http://wps.pearsoned.co.uk/wps/media/objects/1452/1487687/glossary/glossary.html#M 18/07/2009 9.15pm

[12] www.cfdccariboo.com/glossary.htm 18/07/2009 9.15pm

Market identification studies and provides consumer data based on factors like purchase frequency, unit of purchase and seasonal buying habits etc.

B) MARKET MOTIVATION

Market motivation is something about to find out why customers buy the product and the reasons why potential customers might buy it avoid repetition. This will not only help in estimating market potential but assist the sales people to increase the effectiveness of promotional programs. Projective Technique is most widely used in motivation research; in which respondents project themselves their attitudes, interests and opinions into interpretations of special materials presented by the researcher. Most motivation studies are directed towards explaining the buying behaviour of ultimate consumer rather than industrial users.

Information from motivation studies helps not only in estimating a product's market potential but assists in deciding How best to present the product in sales talks, The relative effectiveness of different selling appeals, The relative appropriateness of various promotional methods.

C) ANALYZING THE MARKET POTENTIAL

Generally, market potential cannot be analyzed directly, so analysis makes use of market factors. A market factor is a market feature or characteristics related to the products demand. A crucial assumption underlies market factor analysis is future demand for a product is related to the behaviour of certain market factors. The key to successful use of the method lies in selecting appropriate market factors. It is also important to minimize the number of market factors used. The greater the number of factors, the greater the chance for erroneous estimates and the more difficult it is to determine how much each factor influences demand.

Using market factors for analyzing market potential is a two-step process.

1. Select the market factor(s) associated with the product's demand.
2. Eliminate those market segments that do not contain prospective buyers of the product.

3.2.3. ESTIMATING CURRENT DEMAND:

The mathematical and statistical techniques used in forecasting have been available and employed for decades. The growth in methodological developments has been roughly exponential for the social sciences. While the social science disciplines occupy different segments along this growth curve, the overwhelming trend has been to move toward quantitative methodologies. Practitioners of the economics and business disciplines have followed this trend as well

There are some practical methods for estimating current market demand. Marketing executives want to estimate total market potential, area market potential, and total industry sales and market shares.

A) TOTAL MARKET POTENTIAL:

Total market demand is the volume of product or service sales defined by a consumer group for a given geographic area, time period, marketing environment, and level of marketing effort. Demand, and therefore sales volume, is a function of all of these factors. However, In the short-term time horizon, a firm only has control over the intensity of marketing efforts. Typically, increasing marketing efforts initially results in higher level of demand at an increasing rate. Eventually, however, increased marketing and advertising will lead to diminishing sales volume returns. These diminishing returns will result in an upper limit of demand, thereby defining the market potential .

The difference between market potential and sales with no marketing effort shows the relative sensitivity of the market to advertising. A market with low (high) sensitivity to advertising is described as non expandable. Firms in markets with low advertising sensitivity typically take total market demand as being relatively fixed. Therefore, their efforts are directed toward building selective demand for their brand or product. Expandable markets, however, focus on competing for new customers, rather than, competitor's existing customers.

B) AREA MARKET POTENTIAL

Companies face the problem of selecting the best territories and allocating their marketing budget optimally among these territories. Therefore, they need to estimate the market potential of different cities, states and nations. Two major methods of assessing are market potential are available:

- **Market Buildup Method-** which is used primarily by business marketers.

The basic premise of the market-buildup method is to identify all potential customers and their potential purchases. The weakness of this method lies in the ability to obtain information on potential consumers and their buying behavior. One effective manner of identifying potential customers is to use the Standardized Industrial Classification system (SIC). This system lists companies by 20 major industry groups. Within these classifications companies are further categorized by 150 industry groups, which are then divided by 450 product categories. The location, number of employees, and the company's annual sales and net worth are all provided.

In order to use the SIC codes as a basis of identifying potential customers, one must determine which classifications both have interest and access to the product. This can be accomplished in three ways. The first manner is to determine and use past customer SIC codes as a basis of determining potential customers. Another method is to subjectively select SIC codes that would have a need or desire for the company's product. Finally, questionnaires and primary research can be conducted over a wide range of companies to determine a product's potential customers. Once potential customers are identified, an appropriate basis for estimating sales per customer must be determined. This too can be accomplished through primary research, subjective estimates, historic data, or other estimation techniques.[13]

❖ **Multiple factor index method** – which is used primarily by consumer marketers

Companies making sales directly to the end consumer face the problem of having too many potential consumers to list effectively. The standard manner of determining regional attractiveness is the multiple or market-factor index method. This method identifies market factors that correlate with market potential and then combine them into a weighted index. The geographic area can be broadly or narrowly defined to include entire nations or simply small towns. An example of this method is the buying power index (BPI), which uses an area's share of national population, effective buying income, and retail sales as a basis of determining a location's attractiveness. Other measures of market potential and attractiveness are also employed.[14]

C) INDUSTRY SALES AND MARKET SHARES

Besides estimating total potential and area potential a company needs to know the actual industry sales taking place in its market. This means identifying competitors and estimating their sales.

[13] Kotler, Philip. (1997). Marketing Management: Analysis, Planning, Implementation, and Control. (9th ed.) Upper Saddle River: Prentice Hall, 1997.

[14] Armstrong, Gary, & Kotler, Philip. (1996). Principles of Marketing. 7th ed. Englewood Cliffs: Prentice Hall, 1996

3.2.4. ESTIMATING FUTURE DEMAND

An accurate sales forecast is crucial to business planning. Sales forecasts filter through the organization and have a large impact on daily operations. It can have an impact on production schedules, inventory control, personnel planning, and a host of other business decisions. The quality of a sales forecast can translate into gained or lost profits. In many business environments, fluctuations in general business conditions make forecasting a difficult task .

Forecasting future sales of notebook industry involves analysis on three distinct levels: the economy, the industry, and company or product market. All forecasts are built on three types of information: what consumers say, how consumers actually act, and how consumers have acted in the past. The macroeconomic forecast calls for projecting inflation, unemployment, interest rates, net exports, consumer spending, etc. When broad economic forecasts are completed, this information is then used to analyze industry prospects. This in turn is used to help estimate company performance. While larger firms conduct their own forecasting, smaller companies can buy forecasts from marketing research firms, specialized forecasting firms, and futurist research firms. Marketing research firms develop their forecasts by interviewing customers, distributors, and other knowledgeable parties. Specialized forecasting firms produce long-range forecasts of macroeconomic variables, population characteristics, and technology or resource projections, while futurist research firms produce speculative scenarios.

Forecasting methods differ in complexity, time requirements, and level of scientific or arbitrary methodology. There are five main categories of forecasting techniques: executive judgment, surveys, time series analysis, correlation methods, and market tests. A firm will decide on the appropriate method based on cost, type of product, market characteristics, forecast time span and purpose, availability of data, and other factors. A firm may choose one method or a combination of forecasting techniques within or across product lines.

a) TIME SERIES ANALYSIS

This type of forecasting technique uses historical sales data in order to find patterns over time. Most time-series analysis involves the use of seasonal, cyclical, trend, or random factors to find patterns over time. However, one type of time series analysis that uses only historical data is exponential smoothing. The basic premise is that these patterns will continue into the future. Therefore, the accuracy of this method is largely determined by the validity of that premise.

Other forms of time-series analysis also depend on reoccurring patterns over time. Generally, four different types of analysis are performed to find these patterns. Trend analysis examines the aggregate sales data to determine whether sales are generally rising or falling. Another type of analysis is seasonal analysis. Time increments of days, weeks, and months are studied to determine whether climate, holidays, or other seasonal factors affect sales volume. Similar to seasonal analysis, cycle analysis studies longer periods of time (three to five years) to ascertain whether sales fluctuate in a consistent periodic manner. Finally, random analysis attempts to determine the effect of non-reoccurring events on sales. The results of these analysis tools are then combined in order to forecast demand. While this method has proven successful in stable demand markets, companies in erratic demand markets find little value from time series analysis.

b) CORRELATION METHODS

The basic principle of this method is to find a relationship between sales and other variables. These variables may include income, population growth, inflation, etc. This is accomplished by examining historical sales and variable data to determine if a correlation exists. While a causal relationship cannot be established, it does prove an association between sales and various variables. From these relationships, mathematical formulas are derived to estimate demand for given variable values. This technique is known as regression analysis. Econometric models are a type of correlation forecasting method. These models use historical data and techniques used in time-series models, but also include effects of external variables such as economic factors. Although generally these models explain variations in historical data better than any other model, they do not necessarily have the most accurate projections.

c) TEST MARKETING

Market testing involves introducing a product or service in a limited capacity in order to gain knowledge about the larger population. This method provides information on actual purchases rather than intended or historical purchases. The lack of reliance on historical data enables firms to estimate sales for new products or existing products being introduced into new markets. In addition, the data is more accurate because it reflects real purchasing decisions. Finally, this method allows sales to be compared to the marketing mix. Through this comparison, the effect of promotional efforts on sales volume can be determined. Market tests, however, are expensive and time-consuming.

d) EXECUTIVE JUDGMENT

This forecasting method is based solely upon the subjective judgment of one or more executives. This method is inexpensive and expedient; however, there are serious problems as well. Personal experience is a major factor in the decision process. While possibly effective in stable demand markets, changing environmental factors greatly reduce accuracy and effectiveness. In addition, forecasts are made with added weight to recent experiences causing forecasts to be either overly optimistic or pessimistic.

e) SURVEYS

Another manner of estimating future sales is to survey or interview customers, sales people, or experts about their expectations for the future.

❖ **CUSTOMER FORECASTING SURVEY**

Information can be gained regarding the quantity, time, and type of product that consumers desire. Often this technique is more effective when there are a relatively small number of consumers. There are three main disadvantages of this type of forecasting method. First, customers must be able and willing to answer questions with reasonable accuracy. Secondly, responses reflect intentions rather than actual buying behavior. Finally, customer surveys typically require relatively large amounts of time and money.

❖ **SALES-FORCE FORECASTING SURVEYS**

This type of survey requires a company's sales force to estimate future sales in their territories. These responses are then compiled to develop a forecast. The advantage of this surveying technique is that the sales force is "closer" to the consumer and can gauge market trends and needs. In addition, the sales force usually will work harder to meet their own projections. Finally, forecasts can be on the small geographic areas or very large territories.

Sales-force forecasting also has disadvantages. Much like the executive judgment method, sales force surveys depend upon experience and subjective estimates. The main short fall of this method is that sales people have incentives to underestimate sales potential in their territories so that their quotas will be easier to meet. In addition, salespeople can be either too optimistic or pessimistic based on recent experiences.[15]

[15] Ferrell, O.C., & Pride, William. Marketing: Concepts and Strategies. (8th ed.) Boston: Houghton Mifflin Company, 1993

❖ **EXPERT FORECASTING SURVEYS**

This method simply outsources the forecasting duties to experts such as economists, management consultants, advertising executives, etc. While outsourcing is relatively inexpensive and expedient, experts have less incentive for performing well.

3.2.5. BENEFITS OF MARKET POTENTIAL ANALYSIS

Reasonably accurate sales forecasting has become a prerequisite for competitive viability in today's market place. Cost advantages can be gained by forecasting sales more accurately than competitors. Sales forecasts can affect the very heart of internal operations from marketing efforts to maintaining efficient and optimal inventory levels for production. Part objective and part subjective, sales forecasting remains partially judgment/guesswork and partially science. As technology improves we see that the ability to quantify future events improves.

The benefits of market potential analysis are as follows:

1. Understand market potential for a single store, network of stores or a new market
2. Deploy resources effectively by ranking markets in priority order
3. Forecast total opportunity in terms of number of customers and revenue potential
4. Estimate your market share

3.3. MARKETING MIX

The mix of controllable marketing variables that the firm uses to pursue the desired level of sales in the target market. The most common classification of these factors is the four-factor classification called the "Four Ps"-price, product, promotion, and place (or distribution). Optimization of the marketing mix is achieved by assigning the amount of the marketing budget to be spent on each element of the marketing mix so as to maximize the total contribution to the firm. Contribution may be measured in terms of sales or profits or in terms of any other organizational goals.

A) HISTORY OF MARKETING MIX

Borden claims to be the first to have used the term "marketing mix" and that it was suggested to him by Culliton's (1948) description of a business executive as "mixer of ingredients". However, Borden did not formally define the marketing mix; to him it simply consisted of important elements or ingredients that make up a marketing programme (Borden, 1965, p. 389). McCarthy (1964, p. 35) refined this further and defined the marketing mix as a combination of all of the factors at a marketing manger's command to satisfy the target market. The essence of the marketing mix concept is, therefore, the idea of a set of controllable variables or a "tool kit" (Shapiro, 1985) at the disposal of marketing management which can be used to influence customers. The disagreement in the literature is over what these controllable variables or tools are. Borden, in his original marketing mix, had a set of 12 elements namely:

(1) Product Planning
(2) Pricing
(3) Branding
(4) Channels of Distribution
(5) Personal Selling
(6) Advertising
(7) Promotions
(8) Packaging
(9) Display
(10) Servicing
(11) Physical Handling and
(12) Fact Finding and Analysis

Other suggested frameworks include Frey's (1961) suggestion that marketing variables should be divided into two parts: the offering (product, packaging, brand, price, service) and the methods and tools (distribution channels, personal selling, advertising, sales promotion and publicity). Lazer and Kelly (1962) and Lazer et al. (1973), on the other hand, suggest three elements: the goods and services mix, the distribution mix and the communication mix. However, the most popular and most enduring marketing mix framework has been that of McCarthy who regrouped and reduced Borden's 12 elements to the now popular 4Ps, namely: product, price, promotion and place (McCarthy, 1964, p. 38). Each of these categories consists of a mix of elements in itself and hence one can speak of the "product mix", "the promotion mix", and so forth. For instance, Kotler and Armstrong list advertising, personal selling, sales promotion and publicity under the heading of promotion. But the 4Ps framework has been subjected to much criticism. Kent (1986), for example, argues that the 4Ps framework is too simplistic and misleading. Various other authors have found the 4Ps framework wanting and have suggested their own changes. For instance, Nickels and Jolson (1976) suggest the addition of packaging as the fifth P in the marketing mix. Mindak and Fine (1981) suggested the inclusion of public relations as the fifth P. Kotler suggests the addition of Power as well as public relations in the context of "mega marketing" (1986). Payne, and Ballantyne (1991) suggest the addition of people, processes, and customer service for relationship marketing. Judd (1987) suggests the addition of people as a method of differentiation in industrial marketing.

Much more concerted criticism has come from the areas of industrial and services marketing which brings out the need for modification of the 4Ps mix since industrial marketers have long claimed that industrial marketing has features that make it unique and different to consumer marketing. The most important of these features are product complexity and buying process complexity that leads to a high degree of interdependence between buyers and sellers. This has led Webster (1984) to assert that the essence of industrial marketing is the buyer-seller relationship which binds the two together in pursuit of their corporate goals, each becoming dependent on the other. And finally marketing mix of 7 Ps i.e. Product, Price, Place, Promotion, People, Process and Physical evidence arises.

B) DEFINITIONS OF MARKETING MIX

The definitions of marketing mix are as follows,

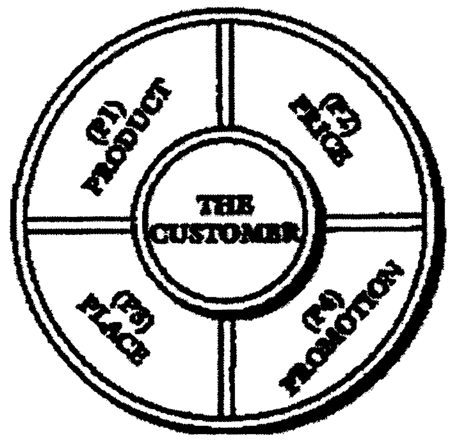
1. According to W. J. Stanton, "Marketing mix is the term used to describe the combination of the four inputs which constitute the core of a company's marketing system: the product, the price structure, the promotional activities, and the distribution system."[16]
2. According to Philip Kotler, "A Marketing mix is the mixture of controllable marketing variables that the firm uses to pursue the sought level of sales in the target market."[17]
3. McCarthy and Perreault (1987) defined, "Marketing mix is the controllable variables that an organization can co-ordinate to satisfy its target market."[18]

This marketing mix is marketing manager's tool for achieving marketing objectives/targets. He has to use the four elements of marketing mix in a rational manner to achieve his marketing objectives in terms of volume of sales and consumer support. Thus it is said that it is a profitable formula for successful marketing operations. A marketing manager executes his marketing strategies through these instruments. The diagram given suggests the nature of marketing mix.

[16] http://kalyan-city.blogspot.com/2010/05/marketing-marketing-mix-4-ps-of.html 6.26 11/07/2010
[17] http://kalyan-city.blogspot.com/2010/05/marketing-marketing-mix-4-ps-of.html 6.26 11/07/2010
[18]http://www.accessmylibrary.com/article-1G1-17634920/using-7ps-generic-marketing.html6.51 1/07/2010

Figure No 3.1.

Customer Oriented Marketing Mix[19]



Marketing mix is the appropriate combination of four basic elements/ingredients under one head. Product itself is the most important element of marketing mix. Price, place and promotion are the other supporting elements. The four components of marketing mix are also called "marketing mix variables" or "controllable variables" as they emanate from within the enterprise and the marketing manager can use them freely as per his desire or need of the situation.

[19] http://kalyan-city.blogspot.com/2010/05/marketing-marketing-mix-4-ps-of.html 6.26 11/07/2010

➤ **Elements / Ingredients of Marketing Mix**

Figure No 3.2.

Marketing Mix[20]

❖ **PRODUCT:**

This stands for the firm's tangible offer to the marketer, including the product quality, design, features, branding and packaging. It is the first element in the marketing mix. Most product are physical products (such as automobiles, toasters, shoes, eggs etc.), but Services (such as haircuts, concerts and vacations) are also products. One can think of persons as products, not in a sense we buy person but we buy records or attend the concerts. Thus, products consist broadly of anything that can be marketed, including physical objects, services, persons, places, organizations and ideas. The product can be defined as follows:

DEFINITIONS OF PRODUCT MIX

The definitions of product mix are as follows,

1. Products are the market expression of the company's productive capabilities and determine its ability to link with consumers[21]

[20] Kotler Philip, Keller Kevin lane (2006) *Marketing Management, publication, edition* p.19.

2. A product is anything that can be offered to a market for attention, acquisition, use or consumption that might satisfy a want or need.
3. Product is the article which a manufacturer desires to sell in the open market.

Product is the most powerful competing instrument in the hands of the marketing manager. It is the heart of whole marketing mix. If the product is not sound /attractive to the customers, no amount of sales promotion, appropriate channel selection or price reduction will help to achieve the marketing target. Hence, durability, quality, uses, etc. of the product are important from the marketing point of view.

The product mix includes the following variables:

a) Product line and range,
b) Style, shape, design, colour, quality and other physical features of a product,
c) Packaging and labeling of a product,
d) Branding and trade mark given to the product,
e) Product innovation,
f) Product servicing and channel of distribution,
g) Guarantees and warranties of the product and
h) Special features of the product from the marketing point of view.

Managing product component involves product planning and development. Here, the decisions are required to be taken regarding product range, branding, packaging, labeling and other features of the product. The product manufactured for market should be as per the needs and expectations of consumers.

VARIOUS ASPECTS OF PRODUCT DECISIONS IN MARKETING

In the marketing process, various decisions regarding the product are required to be taken. Such decisions should be based on current marketing environment, nature of market competition, consumer expectations, information available through marketing research and so on. Cooperation of other departments is also necessary in marketing decision-making.

Customers purchase a product because of its attributes, features and benefits. These are the selling points of a product. They should be adjusted to the buying motives of consumers. A consumer/customer considers the total package of benefits available from the product and takes a decision to purchase the product. This suggests that various

[21] Lazer, W (1971), *Marketing Management: A Systems Perspective* New York: John Wiley & Sons

decisions regarding the product to be marketed need to be taken correctly. As a result, the product offered in the market will be a quality product. In addition, it will be utility oriented, attractive, convenient, property designed and branded. Even attractive packaging decision facilitates sales promotion.

The variables of a product mix need careful attention in marketing decision-making. Decisions on these aspects of a product are important as marketing is directly related to these aspects. Sales promotion measures will be useful but their role will be supplementary/ supportive. Such measures may not be effective if the product to be marketed is not of standard quality or if the brand or package is not attractive or if the product is not as per the requirements/expectations of consumers. This suggests that decisions relating to product are important /crucial in the marketing of a product.

❖ **PRICE:**

Price is one more critical component of marketing mix. All profit organizations and many nonprofit organizations set prices on their products or services. Price is the only element in the marketing mix that produces revenue. The other elements produce cost thus pricing has an important bearing on the competitive position of a product.

DEFINITIONS OF PRICE MIX

1. It is the valuation of the product mentioned by the seller on the product.
2. It is the amount of money that customers have to pay for the product.

Price mix includes the following variables:

a) Pricing policies,
b) Discounts and other concessions offered for capturing market,
c) Terms of credit sale,
d) Terms of delivery, and
e) Pricing strategy selected and used.

It also includes decision relate to retail prices, discounts, allowances and credit terms. The marketing manager may use pricing as a tool for achieving the targeted market share or sales volume. Pricing can also be used for capturing market and also for facing market competition effectively. Pricing decisions and policies have direct influence on the sales volume and profits of the firm. Market price of a product also needs periodical review and adjustments. The price charged should be high enough to give adequate profit to the company but low enough to motivate consumers to purchase product. It should also be suitable to face market competition effectively.

> **Pricing policy**

Historically, prices were set by buyers and sellers negotiation (called Bargaining). Setting one price for all buyers is a relatively modern idea. It was given impetus by the development of large scale retailing at the end of the nineteenth century.

Companies handle pricing in a variety of ways.

a) In a small companies prices are often set by top management rather than by the marketing or sales department.

b) In large companies pricing is typically handled by division and product line managers. Even in this case top management set the general pricing objectives and policies and often approves the prices proposed by lower level of management.

In notebook industry the price of the product is decided on the basis of the size of the notebook, kind of binding and on the quality of the paper etc.

❖ DISTRIBUTION CHANNEL (PLACE):

Place stands for the various activities the company undertakes to make the product easily accessible and available to target customers. It includes identification and establishes linkage between various middle men and marketing facilitators which are many and varied in character, so that its products and services are efficiently supplied to the target market. Most producers do not sell their goods directly to the final users. Between them and the final users stand a host of marketing intermediaries performing a variety of functions and bearing a variety of name. Some intermediaries such as wholesalers and retailers - they buy, take title to and resell the merchandise they are called Merchant Middlemen. Others such as brokers, manufacturers representatives, and sales agents – search for customers and may negotiate on behalf of the producer but do not take title to the goods. They are called Agent Middlemen. Still others such as transportation companies, independent warehouses, banks and advertising agencies assist in the performance of distribution but neither neither take title to goods nor negotiate purchases or sales, they are called Facilitators.

DEFINITION OF PLACE MIX

1) Physical distribution is the delivery of goods at the right time and at the right place to consumers.

Physical distribution (place mix) includes the following variables:

a) Types of intermediaries available for distribution,
b) Distribution marketing channels available for distribution, and
c) Transportation, warehousing and inventory control for making the product available to consumers easily and economically.

For large-scale distribution, the services of wholesalers, retailers and other marketing intermediaries are required. A marketing manager has to select a channel which is convenient, economical and suitable for the distribution of a specific product. For instance, large numbers of outlets are required for the distribution of products of mass consumption such as soaps and oils. On the other hand, for the marketing of speciality products like refrigerators and TV sets, selective distribution through authorized dealers is quite convenient.

➢ **Meaning, Functions and Flows of Marketing channels**

Marketing channels can be viewed as set of interdependent organizations involved in the process of making a product or service available for use or consumption.

A marketing channel performs the work of moving goods from producers to consumers. It overcomes the time, place and possession gaps that separate gods and services from those who would use them.

Members in the marketing channel perform a number of key functions and participate in the following marketing flows:

a) Information: the collection and dissemination of marketing research information about potential and current customers, competitors and other actors and forces in the marketing environment.
b) Promotion: the development and dissemination of persuasive communications about the offer designed to attract customers.
c) Negotiation: the attempt to reach final agreement on price and other terms so that transfer of ownership or possession can be affected.
d) Ordering: the backward communication of intentions to buy by the marketing channel members to the manufacturer.
e) Financing: the acquisition and allocation of funds required to finance inventories at different levels of the marketing channel.

f) Risk taking: the assumption of risks connected with carrying out the channel work.
g) Physical possession: the successive storage and movement of physical products from raw materials to the final customers.
h) Payment: buyers paying their bills through banks and other financial institutions to the sellers.
i) Title: the actual transfer of ownership from one organization or person to another.

❖ PROMOTION MIX:

It stands for the various activities the company undertakes to communicate its products merits and to persuade target customers to buy them. It includes hire, train and motivates sales people to promote its products to middlemen and other buyers. It has to set up communication and promotion programs consisting of advertising, direct marketing, sales promotion and public relations.

DEFINITION OF PROMOTION MIX

Promotion is the persuasive communication about the product offered by the manufacturer to the prospect.

Promotion mix includes the following variables:

a) Advertising and publicity of the product,
b) Personal selling techniques used,
c) Sales promotion measures introduced at different levels,
d) Public relations techniques used for keeping cordial relations with dealers and consumers,
e) Display of goods for sales promotion.

Promotional activities are necessary for large scale marketing and also for facing market competition effectively. Such activities are varied in nature and are useful for establishing reasonably good rapport with the consumers. After-sales services are also useful for promoting sales of durable good.

a) Advertising – Any paid form of non-personal presentation and promotion of ideas, goods or services by an identified sponsor is called as Advertising. It gives information and guidance to consumers. Brand names are made popular through advertising.

b) Sales promotion – Short term incentives to encourage purchase or sale of a product or service are includes in sales promotion techniques. The techniques at consumer level include displays, exhibitions, discount coupons, small gifts and free samples, attractive container and consumer contests etc. Consumer psychology is favorable for extensive use of such sales promotion techniques. Such techniques can be implemented at dealer level.

c) Public relations – It includes variety of programs designed to improve, maintain, or protect a company or product image.

d) Personal selling – It means oral presentation in a conversation with one or more prospective purchasers for the purpose of making sales. It is useful for motivating the customers to buy a specific product.

Some Common Promotional Tools:

This table shows the different promotional tools are used by the companies to attract the customer and motivate to purchase it.

Chart No. 3.1

Common Promotional Tools[22]

a) Advertising	b) Sales Promotion	c) Public Relations	d) Personal Selling
Print and broadcast ads.	Contests, games,	Press kits	Sales presentations
Packaging – outer	Lotteries	Speeches	Sales meetings
Packaging inserts	Gifts	Seminars	Telemarketing
Mailings	Sampling	Annual reports	Incentive programs
Catalogs	Fairs and trade shows	Charitable donations	Samples
Motion pictures.	Exhibits	Sponsorships	Fairs and trade shows.
House magazines	Demonstrations	Publications	
Broachures and booklets	Couponing	Community relations	
Posters and leaflets	Rebates		
Directories	Low interest financing		
Reprints of ads	Entertainment		
Display signs	Trade in allowances		
Point of purchase displays			
Audiovisual material			
Symbols and logos			

[22] Kotler, Philip. (2006). Marketing Management: Analysis, Planning, Implementation, and Control. (12th ed.) Upper Saddle River: Prentice Hall, 2006.

➤ FEATURES OF MARKETING MIX

1. **Combination of four interdependent marketing variables:**

   Marketing mix is a combination/integration of four basic marketing variables namely, product, price, promotion and place. These variables are interdependent.

2. **Useful for achieving marketing targets:**

   Marketing mix aims at achieving marketing targets in terms of sales, profit and consumer satisfaction. It is rightly said that marketing mix is the marketing manager's instrument for attainment of marketing objectives/targets.

3. **Flexible and dynamic concept:**

   Marketing mix is not a rigid combination of four variables. It is in fact a flexible combination of variables. It is necessary to adjust the variables in the mix from time to time as per the changes in the marketing environment. It is the continuous monitoring of the marketing mix which facilitates appropriate changes in the mix.

4. **Periodical adjacent of variables necessary:**

   Marketing mix variables are interrelated and need suitable adjustments from time to time. Updating of marketing mix is essential for making it a powerful tool for achieving marketing targets. Updating is also essential due to environmental changes taking place within the firm.

5. **Marketing manager acts as a mixer of ingredients:**

   A marketing manager has to function as a mixer of marketing ingredients and has to achieve desired results through skillful combination of four Ps. He needs maturity, imagination and intelligence for appropriate blending of the variables.

6. **Customer is the focus point:**

   The main focus of marketing mix is the customer. His satisfaction and support are important. Variables of marketing mix are for giving more satisfaction and pleasure to consumers.

7. **Variables are interrelated:**

   Marketing mix variables are interrelated. Decisions in one area affect action in the other areas. An integrated approach is needed while making changes in the marketing mix variables.

8. **Consumer-oriented activity:**

   Marketing mix is a consumer-oriented activity as its purpose is to give satisfaction and pleasure to consumers. Here, the needs and expectations of consumers are given special attention and 4 Ps are adjusted accordingly.

9. **Four Ps of sellers correspond to four Cs of customers:**
   Four Ps in the marketing mix represent the sellers' view of the marketing tools available for influencing buyers. Each tool is designed to deliver a customer benefit.

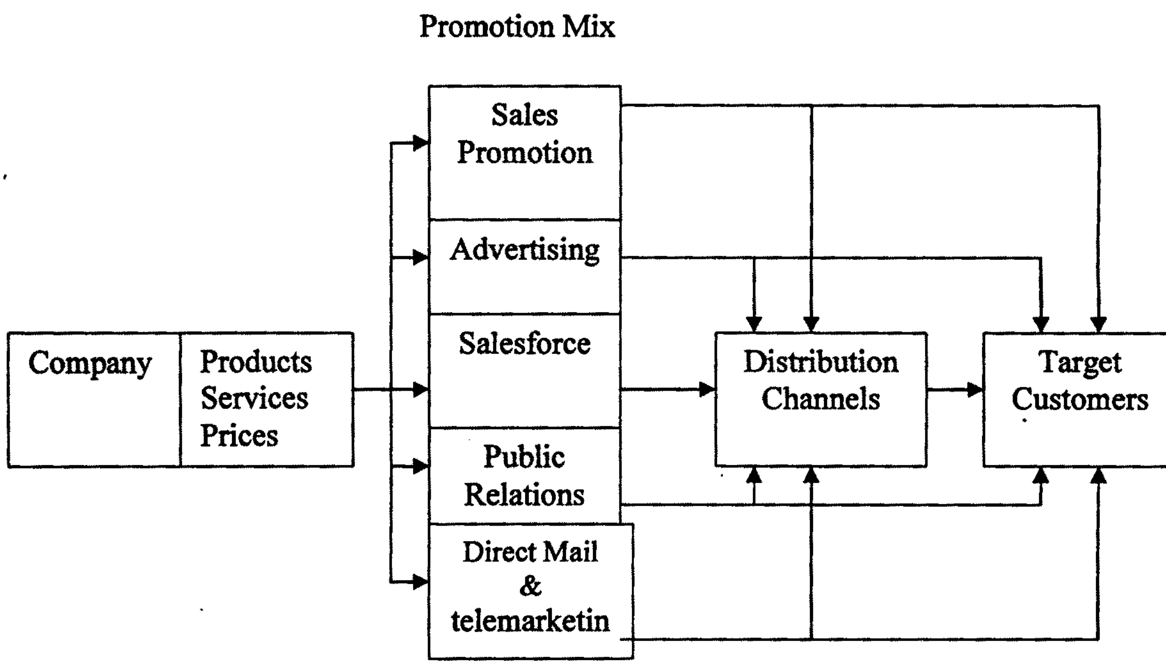
➢ MARKETING MIX STRATEGY

Launching a product in the market and winning consumers in the initial period is not enough. Sustaining market share even when competitors are on the rise is crucial for long term profit. We all know consumers have short concentration spans. It doesn't take long for a competitor to come and dangle a similar product, thereby snatching away one's consumers. Thus, a company has no time to be complacent. In this world of 'survival of the fittest', one cannot afford to be happy with today's sales rates and relax. Instead one needs to analyze the product life cycle and the marketing mix strategy and come up with ways to keep consumers lured.

Marketing mix decisions must be made for influencing the trade channels as well as the final consumers. Marketing mix strategy shows the company preparing an offering mix of products, services and prices and utilizing a communications mix of advertising, sales promotion, event and experiences, public relations, direct marketing and personal selling to reach the trade channels and the target customers.

Figure No 3.3

Marketing Mix Strategy[23]



➢ LIMITATIONS OF MARKETING MIX ANALYSIS

Despite the fact that marketing mix analysis is used as a synonym for the 4Ps of Marketing, it is criticised (Kotler & Armstrong, 2004) on the point that it caters seller's view of market analysis not customers view. To tackle this criticism, Lauterborn (1990)[24] attempted to match 4 Ps of marketing with 4 Cs of marketing to address consumer views:

Product – Customer Solution

Price – Customer Cost

Placement – Convenience

Promotion – Communication

3.4. CONSUMER BEHAVIOUR

Customer is the most important person in the whole marketing process. He is the cause and purpose of all marketing activities. According to Prof. Drucker, the first function of marketing is to create a customer or market. All marketing activities are for meeting the needs of customers and for raising social welfare. Marketing itself is a "need-satisfying process". It facilitates physical distribution and creates four types of utilities viz., Form

[23] Kotler, Philip. (2006). Marketing Management: Analysis, Planning, Implementation, and Control. (12th ed.) Upper Saddle River: Prentice Hall, 2006.

[24] Lauterborn, R (1990), 'New Marketing Litany: 4P's Passe; C-Words Take Over', Advertising Age, Oct 1, 1990:26

Place, Time and Possession. The term marketing can be given narrow or broad interpretation. In the narrow sense, marketing is concerned with the flow of goods and services from producers to consumers / users. This interpretation is 'product-orientation' of marketing. In the broader sense, marketing essentially represents consumer-oriented activity. It is for meeting the needs of consumers and naturally production and marketing activities are to be planned as per the needs and expectations of consumers. Marketing is for demand creation and demand satisfaction.

As consumers, we play a vital role in the health of the economy – local, national and international. The purchase decisions we make affect the demand for basic raw materials, for transportation, for production, for banking; they affect the employment of workers and the deployment of resources, the success of some industries and the failure of others.

This term consumer behavior describes two different kinds of consuming entities: the personal consumer and the organizational consumers.

The personal consumer buys goods and services for his or her own use, for the use of the household or as a gift for a friend. The products are bought for final use by the individuals who are referred to as end users or the ultimate customers.

The organizational consumer includes profit and not profit making business, government agencies, local, state and national, and institutions like schools, hospitals etc. al of which must buy products equipment and services in order to run their organizations.

A) DEFINITION OF CONSUMER BEHAVIOUR

The term consumer behaviour can be defined as,

1) "The decision process and physical activity individuals engage in when evaluating, acquiring, using or disposing of goods and services".
2) Belch and Belch define consumer behaviour as 'the process and activities people engage in when searching for, selecting, purchasing, using, evaluating, and disposing of products and services so as to satisfy their needs and desires'.[25]
3) "The behavior that consumers display in searching for, purchasing, using, evaluating and disposing of products and services that they expect will satisfy their needs".
4) The dynamic interaction of affect and cognition, behavior, and the environment by which human beings conduct the exchange aspects of their lives.

[25] http://books.google.com/books?id=8qlKaIq0AccC&printsec=frontcover#v=onepage&q&f=false

5) The behavior of the consumer or decision maker in the market place of products and services. It often is used to describe the interdisciplinary field of scientific study that attempts to understand and describe such behavior.[26]

B) Importance of Studying Consumer Behaviour

The behaviour of consumers can be quite subtle in nature, which make it to understand fully. Consumer behaviour is so prevalent; it significantly affects our lives through either our own actions or those of other consumers. The study of consumer behaviour helps to know the buying pattern, expectations of the consumers and motivation behind purchasing the particular product. This will help to develop marketing mix strategy like product mix, price nix, place mix, promotion mix etc.

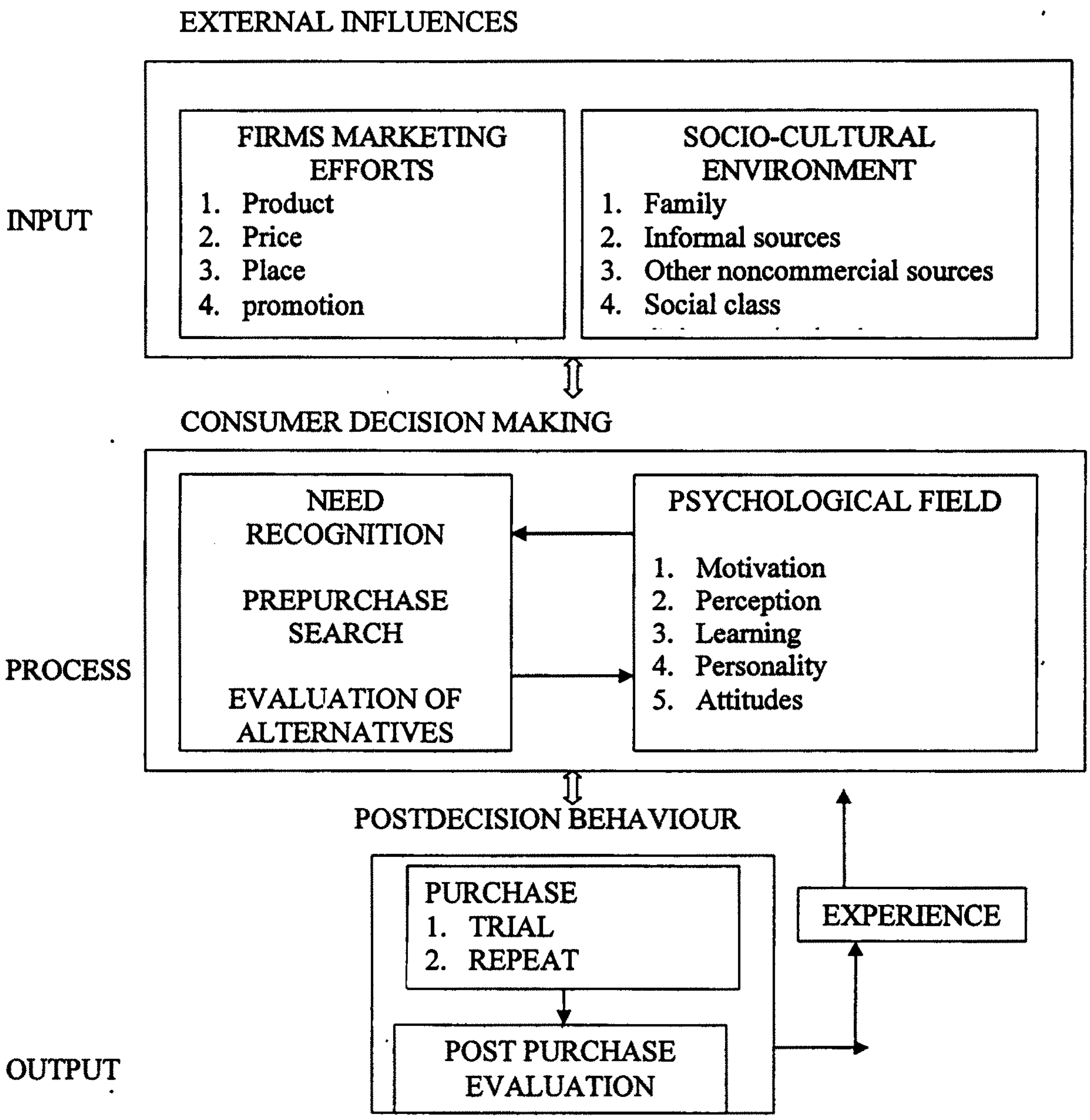
C) MODEL OF CONSUMER DECISION MAKING

The process of consumer decision making can be viewed as three distinct but inter-locking stages: the input stage, the process stage and the output stage.

[26] http://www.marketingpower.com/_layouts/Dictionary.aspx?dLetter=C 18.07.2009 9.15pm

Chart No. 3.3.

Model of Consumer Decision Making[27]



- **INPUT STAGE**

The input stage influences the consumer's recognition of a product need and consists of two major sources of information one is firms marketing efforts and the external sociological influences on the consumer. The cumulative impact of each firm's marketing efforts, the influence of family, friends and neighbours and society's existing code of behavior, are all inputs that are likely to affect what consumers purchase and how they use what they buy.

[27] Suja Nair (2000) *Consumer Behaviour*, Himalaya Publishing House Pvt.Ltd., Bombay, Third Edition

- **PROCESS STAGE**

It focuses on how consumer makes decision. The psychological factors inherent in each individual affect how the external inputs for the input stage influence the consumer's recognition of a need, pre purchase search for information and evaluation of alternatives. The experienced gained through evaluation of alternatives in turn affects the consumer's existing psychological attributes.

- **OUTPUT STAGE**

This part of decision mode consists of two closely related post decision activities one is purchase behavior and second is post purchase evaluation.

The trial is the exploratory phase of purchase behavior in which the consumer evaluates the product through direct use. A repeat purchase usually signifies product adoption This model of consumer behavior shows how the external factors means firm marketing effort and socio cultural environment are affecting on the decision making and also shows the post decision behavior of customer.

- **BLACK BOX MODEL**

The black box model is related to the black box theory of behaviourism, where the focus is not set on the processes inside a consumer, but the relation between the stimuli and the response of the consumer.

Chart No. 3.4.

Model of Consumer Behaviour[28]

Black box model

ENVIRONMENTAL FACTORS		**BUYER'S BLACK BOX**		**BUYER'S RESPONSE**
Marketing Stimuli	**Environmental Stimuli**	**Buyer Characteristics**	**Decision Process**	
Product Price Place Promotion	Economic Technological Political Cultural Demographic Natural	Attitudes Motivation Perceptions Personality Lifestyle Knowledge	Problem recognition Information search Alternative evaluation Purchase decision Post-purchase behaviour	Product choice Brand choice Dealer choice Purchase timing Purchase amount

The black box model shows the interaction of stimuli, consumer characteristics, decision process and consumer responses.[1] It can be distinguished between interpersonal stimuli (between people) or intrapersonal stimuli (within people).[2] The marketing stimuli are planned and processed by the companies, whereas the environmental stimulus are given by social factors, based on the economical, political and cultural circumstances of a society. The buyers black box contains the buyer characteristics and the decision process, which determines the buyers response.

The black box model considers the buyers response as a result of a conscious, rational decision process, in which it is assumed that the buyer has recognized the problem. However, in reality many decisions are not made in awareness of a determined problem by the consumer.

3.5 CONCLUSIONS :

The concept of market potential and marketing mix and consumer behavior will help to know how to analyse the market potential for any special product and to know the marketing mix of any existing product or for new product as per market demand. The

[28] http://books.google.com/books?id=8qlKaIq0AccC&printsec=frontcover#PPA219,M1 18.07.2009 10.30pm

analysis of market potential also help to understand market potential for a single store, network of stores or a new market , deploy resources effectively by ranking markets in priority order, Forecast total opportunity in terms of number of customers and revenue potential , Estimate your market share. Marketing mix is an imperative concept in modern marketing which can be referred as the set of controllable tools that the firm blends to produce the response it wants in the target market, so it consists of everything the firm can do to influence the demand for its product. It is important to realize that marketing mix strategy of any company can have one major function, that is, strategic communication of the organization with its customers. It was further argued that marketing mix provides multiple paths as such communication can be achieved either in spoken form and written communications (advertising, selling, etc.) or in more symbolic forms of communication (the image conveyed in the quality of the product, its price and the type of distribution outlet chosen). However, the main aspect of marketing mix is that "It should not be seen as individual entities, but as a set of interrelated entities which have to be set in conjunction with one another". The concept of consumer behavior is help to know the parameters used by the customer at the time of purchasing product and how the external factors affecting on the decision making.