For BMM, Semester II, Mumbai University

Principles of Marketing
(With Case Studies)

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R. Krishnamoorthy

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Principles of Marketing

(With Case Studies)

(As per the Syllabus of Mumbai University for F.Y. BMM, Semester II)

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PREFACE

It gives me great pleasure to present the First Edition of the book on Principles of Marketing to the students of Bachelor of Mass Media. This book is written on the lines of the Syllabus prescribed by the University of Mumbai. Case studies have been included to enable the students to learn the application of marketing principles.

This book is an adaptation of the popular book on Principles of Marketing written by (Late) S.A. Sherlekar and I am grateful to M/s. Himalaya Publishing House Pvt. Ltd., for giving me an opportunity to modify the book, keeping in mind the Syllabus and the requirements of the students.

I request the teachers, students and others to provide constructive suggestions to improve further the contents and quality of this book.

M U M B A I
Date: 20th August, 2014

R. Krishnamoorthy
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# SYLLABUS

## Principles of Marketing

**F.Y. BMM, Semester II**

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Total Marks: 75
Duration: 2½ hours

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OR

Q.1 Practical Application/Case Study (15 marks)
Q.2 Long Essay Question (15 marks)

OR

Q.2 (a) Described Question (8 marks)
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Q.3 (a) Described Question (8 marks)
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INTRODUCTION

In olden days, goods were produced based on actual demand and hardly any marketing effort was required. The job of the salesperson was simply to book orders. Remember the days when a person had to make advance payment for a scooter or car and wait in the queue for the delivery! Similarly, the consumer had to wait for years to get telephone connection. There was a craze for foreign goods such as wristwatches, transistors, television sets, cameras and non-resident Indians returning from Gulf countries used to bring consumer durables which were in high demand in domestic market. Today the market situation has completely changed and high quality branded goods are available in domestic market. With liberalisation, production and availability of goods have increased manifold and the consumer can select from a wide range of products and services available in the market. The competition is increasing in the marketplace and companies are wooing the consumers with discounts and schemes.

The rise in income coupled with increased awareness and the need for possessing modern goods have influenced the marketing environment and the market has changed radically during the last fifteen years. Our country is emerging as a large market for a number of goods and services such as consumer goods, durables, financial services, education, health care, telecommunication and the list continues.

The return of multinationals such as Coca-Cola and IBM to India and entry of many other MNCs such as General Electric, Pepsi, Motorola, Procter & Gamble, Nokia, LG, Ford, Hyundai, Sony, Samsung clearly proves that India has a vast market… rising incomes… a booming middle-class, rising rural elites with adequate purchasing power, offering long-term opportunities for Indian as well as foreign industries.

There is a definite shift from sellers’ market to buyers’ market, from Caveat Emptor (Buyer Beware) to Caveat Vendor (Seller Beware). The essence of marketing concept is that the consumer shall be the centre or the heart of the entire business system. It emphasises consumer-oriented marketing process. All business operations revolve around consumer satisfaction and service. Marketing concept advocates serving the consumers and maximising profits at the same time. Guaranteed route to profits is through customer satisfaction. Profit is a by-product of supplying what the customer wants.

Therefore, marketing is considered the most important activity as it provides goods and services to the society and generates revenue for the organisation.
MARKET

Meaning of Market

The word market is derived from the Latin word “Marcatus” meaning goods or trade or a place where business is conducted. Traditionally, market refers to a physical location where buyers and sellers gather to exchange their goods. In the market, ownership and possession of products is transferred from the seller to the buyer and money acts as a medium of exchange and measure of value. Economists describe a market as a collection of buyers and sellers who transact over a particular product or service. Marketers view sellers as the industry and the buyers as the market. Business people use the term market to refer to various grouping of customers such as Product market (Example: Television market), Geographic market (Example: Asian market) or Non-customer group such as Labour market. However, the term has a wider meaning and it is not confined to a particular area or place where buyers and sellers meet to exchange goods. It is now generally used to mean any body of persons who are in intimate business relations and carry on extensive transactions in any commodity. Let us see a few definitions of “Market”.

1. According to Philip Kotler, “A market consists of all the potential customers showing a particular need or want who might be willing and able to engage in exchange to satisfy the need or want”.

2. According to William J. Stanton, “A market may be defined as a place where buyers and sellers meet, goods and services are offered for sale and transfer of ownership occurs”.

3. The American Marketing Association defines a market as, “the aggregate demand of the potential buyers for a product or service”. The term market as a group of persons is also used to represent the total customer demand. In this sense, market means people with needs to satisfy, the money to spend and the will to spend money to satisfy their wants.

It is quite clear from the above definitions, that “Market” does not necessarily mean a physical place. It is an area in which forces of demand and supply operate directly or by means of any kind of communication to bring about transfer in the title of the goods.

Features of Market

1. In a narrow sense, market refers to a particular place, whereas in a wider sense any convenient place, region, state, nation and world can be considered as market.

2. Buyers (demand) and sellers (supply) are the two sides of the market.

3. The needs of the people, their capacity to spend money, their willingness to part with money and the availability of goods and services are the requirement of the market.

4. The meeting of minds is more important than face-to-face meeting in order to create a market. The transaction can be completed either personally or through agents and through modern communication facilities like fax and internet.

5. In the free market system, price is determined by interaction of forces of demand and supply.
6. Factors affecting the exchange process are: (a) demand and supply, (b) price, (c) market information with sellers and buyers, (d) legal control and regulations to ensure fair price.

7. Feedback information points out buyer’s post-purchase experience. If buyers expectations are fulfilled, seller will get repeat orders. If dissatisfied, buyers will switch to rival brands.

8. Under market driven approach, consumer service and satisfaction become the focus around which entire enterprise is centred and through demand satisfaction, profit is made even against keen competition.

Types of Markets

1. Selling Area Covered: According to the area covered, the market may be classified as Local, Regional, National and International Market.

2. Commodities Traded: The market is differentiated based on the product sold, i.e., Cotton Market, Tea Market, Bullion Market, etc.

3. Nature of Dealings: The market may be Spot/Cash market or Future/Forward market. While in Spot market, goods are bought and sold immediately, in the case of Future market, actual buying and selling take place at a future time as agreed by the buyer and seller.

4. Nature of Goods Sold: The market may be for consumer goods or for industrial goods. Consumer goods are meant for direct consumption/use of consumers, whereas industrial goods are generally needed by manufacturers in the process of production.

5. On the Basis of Time Interval: Markets may be classified into short-term market and long-term market. Example: Money market for short-term period and capital market for long-term funds.

6. Volume of Business Transactions: The market may be a Wholesale market or Retail market according to the nature and volume of business.

7. Competition: On the basis of competition, the market may be Competitive market or Monopolistic market.

8. Functioning of the Market: The market may be an Unorganised market or an Organised market. Example: Regulated markets run by State Governments are organised markets for agricultural produce.

9. Dominance of the Parties: The market may be sellers market or buyers market depending upon the demand and supply of products and services.

10. Sellers Position: The market may be Primary market where farmers sell the produce to the traders or Secondary market where buying and selling takes place between traders. In the case of Terminal market, the produce is assembled for export or for consumption of the local population.

CLASSIFICATION OF GOODS

There are three types of goods as shown below:

1. Manufactured goods may be consumer goods needed for use or consumption by consumers or industrial goods needed for use by producers in the process of production.

2. Agricultural goods may be in the form of raw materials for industry (cotton, sugarcane) or consumer goods for immediate consumption.
3. **Natural raw materials** are the free gifts of nature and they are the raw materials of industry such as iron ore.

![Fig. 1.1: Type of Goods](image)

**CONSUMER GOODS**

Prof. M.T. Copeland developed three-fold classification of consumer goods based on typical buying habits of consumers, i.e., how, when and where consumers usually buy commodities. The three categories of consumer goods are: (1) Convenience goods, (2) Shopping goods, (3) Speciality goods and salient features of these goods are given in Fig. 1.2.

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<td>Low priced goods, frequent purchases with minimum effort, high replacement rate, purchases in small quantities. Must be available at nearest store. Self-service stores ideal for such goods. Examples: Bread, milk, toothpaste, snacks, soap, newspaper, tobacco products.</td>
<td>Are not purchased regularly, planned purchases with considerable efforts, purchases based on quality, style, price, suitability, and purchases can be postponed. Do not need numerous outlets. Examples: Women’s clothing, furniture, shoes, hardware, major appliances.</td>
<td>Less frequent purchases, purchases once in a few years. High priced goods requiring high investments, and available in speciality shops. Examples: TV, CD players, expensive watches, cars, refrigerators, ornaments, cameras.</td>
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<td>2. Quick sales turnover.</td>
<td>2. Medium turnover.</td>
<td>2. Low turnover</td>
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<tr>
<td>3. Sale through wholesaler and retailer.</td>
<td>3. Direct sale to retailer.</td>
<td>3. Direct sale to retailer.</td>
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<tr>
<td>4. Packaging as a silent salesman.</td>
<td>4. Packaging has a minor role</td>
<td>4. Packaging has no promotion value</td>
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**Note:** The distinction between convenience and shopping goods is clear and easily understandable. But the distinction between shopping and speciality goods is not quite clear. Many products are classified in both categories.

**Fig. 1.2: Type of Goods Compared**
Durable And Non-durable Products

As the term suggests, durable products offer tangibility and durability. Non-durable products are normally consumed fast and purchased regularly.

(1) Fast moving consumer goods usually refer to non-durable products. They are also known as Consumer Packaged Goods. Normally consumers spend less time and effort in buying these goods. FMCG includes a variety of products such as a soap, biscuit, shampoo, toothpaste, talcum powder, etc.

They are relatively high volume and low value products. They are a large number of stock keeping units to meet the needs of consumers. Packaging plays a major role in attracting the attention of consumers. The capital investment in setting up a factory is low and major investment is in brand promotion and distribution. Launching a new product requires heavy investment and the marketer has to continue to focus on 4Ps to fight competition and achieve desired volumes and profits.

(2) Consumer durables are tangible goods and are used over an extended period of time. They are purchased once in a few years. Examples: TV, Refrigerator, etc. The consumer spend lot of time in collecting information about various brands/models, discusses with neighbours and friends, check the prices from various outlets before making purchase decisions. The consumers are concerned about perceived risk and after-sales service. Therefore, personal selling and after-sales service play an important role in selling consumer durables.

High Involvement and Low Involvement Products

Involvement refers to how much time, thought and energy consumers devote to the purchase process. High involvement products include car, major electronic appliances and residential flat. Many of the FMCG would come under low involvement products and consumer spends less time and energy in buying these goods.

INDUSTRIAL GOODS

Industrial Market

Till 1985, business markets were called industrial markets or markets for producer goods and industrial marketing almost totally concentrated on goods required by manufacturing companies. Now it is recognised that industrial marketing should be termed as business marketing as the business market is quite big and also varied. In 1987, American Marketing Association has restructured the Industrial Marketing Division into Business Market Division.

Industrial marketing may be defined as an ongoing process of discovering and converting business customer’s needs and requirements into products and service specifications and convincing buyers to use these business products and services. High degree of buyer-seller inter-dependence and continued interaction are considered as a unique feature of industrial marketing. A industrial customer stresses assured supply of business products in time and as per prescribed quality.

Scope of Industrial Market

Industrial market includes all industrial users as organisations buying goods and services for any of the following objects: (1) for manufacturing or producing other goods and services, (2) reselling products to other business users, e.g., wholesalers and retailers of business goods, (3) institutional purchases, e.g., government buyers, educational institutions, hospitals, hotels, service organisations
such as banks, insurance and transport undertakings, consultancy services such as management consultants, organisations offering financial and accountancy services, etc., (4) farmers and agro-business concerns such as food processors, (5) mining, fishing, timber organisations.

**Industrial Products** are the goods and services needed in the process of creation of other goods and services. Consumer goods are in the final form ready to be consumed or used by individuals or families. Industrial products seek profit. Consumer goods are for personal service and satisfaction.

**Industrial Customers:** On the supply side of business market, the major participants are farming, mining and manufacturing concerns. On the demand side of business market we have major participants such as farmers, industrial concerns, business user, government agencies and department, service organisations and all types of middleman traders, e.g., business distributors and exporters. Broadly speaking business customers are classified into four groups: (1) commercial or business enterprises, (2) government organisations, (3) institutions, and (4) service organisations.

**Note:** If a product is to be used in making other products or for the operation of an enterprise, it is called industrial or business product. Thus, business users are the buyers in a business market. If a product is meant for immediate consumption or use in the homes, it is naturally a consumer product and it is sold in a consumer market.

### CLASSIFICATION OF BUSINESS GOODS

Business goods are classified on the basis of use of the product. A typical classification involves six categories:

1. **Raw Materials** supplied by mines, agriculture, forest and sea.
2. **Fabricated Parts and Materials** such as spare parts, spark plugs, batteries, steering wheels, tyres, speedometer, yarn, steel, etc. These are also called components and parts which are assembled (without further change) in the manufacturing of a final product such as refrigerator, motor car, computer, etc. These components are recognisable in the final product. Many manufacturers prefer to buy (instead of making) these fabricated parts.
3. **Installations.** For example, blast furnaces are installations in a steel mill. Aeroplanes are equipments in an airline offering air transport service. Desks and chairs are equipment in a school. Installations (plant and machinery) are forms of fixed durable assets and they represent permanent capital of an enterprise.
4. **Accessory Equipment** is an equipment in the form of light or minor machine and machine tools or implements. Examples of such light equipments or accessories are hand tools, forklift trucks in a factory, cash register in a retail store, calculating machines, computers, accounting machines in an office establishment. Installations have longer life and higher cost than that of accessory equipment.
5. **Operating Supplies.** They have low price, short life and they are bought with minimum efforts. They are consumable items used up rapidly and hence, they are replaced frequently. Though operating supplies help the operations of an enterprise, please note that they do not become a part of the final product (like components). Office stationery, ink, erasers, ballpens, are examples of operating supplies required by any enterprise. Sweeping compounds, detergents, lubricants, fuels are best examples of operating supplies in a factory.
or workshop. Coin wrapper in a bank, floor wax in a hotel, waxed paper in a bakery are other examples of operating supplies.

6. Business Services. In all industries, numerous services are necessary to plan, help or support the working and operations of an enterprise. They include everything from cleaning and sanitation service to highly skilled and professional services. Among the more common professional services are management consultancy services, protection services, maintenance, services, advertising agencies, marketing research agencies, credit intelligence services, marketing information services. Small and medium firms cannot maintain experts on a permanent basis. Such services can be hired on a certain fee, whenever occasion demands. Service organisations sell services in the business market.

Distinguishing Characteristics of Industrial Marketing

Marketing of industrial goods differs from marketing consumer goods in the following important ways:

1. There is much closer relationship and inter-dependence between business functions, such as marketing, manufacturing, research and development, engineering and inventory control. Customer-oriented marketing approach is an absolute necessity in business marketing.

2. Technical product complexity is very dominant in business marketing, product involves combination of physical, economic, technical and personal relationship between buyer and seller.

3. There is a high degree of buyer-seller inter-dependence. Buyer is dependent on the seller for assured continued supply of business goods. Hence, pre-sale and after-sales service assume unique importance in business marketing.

4. Buying process of business goods is very complex. Complexity is a word often used to summarise the unique features of business marketing.

Core Marketing Concepts

- A marketer is someone seeking a response from another party known as prospect. If two parties are seeking to sell something to each other, we call them both marketers.

- A prospect is someone whom the marketer identifies as potentially willing and able to engage in exchange of values.

- Needs describe basic human requirements like water, air, food, clothing and shelter. They also need education, entertainment and recreation. Needs are not created by marketing persons.

- Needs become wants when they are directed to specific objects that might satisfy the need. A person needs water but wants Pepsi. Wants are shaped by society. Human needs are limited, but wants are unlimited.
• **Demands** are wants for specific products backed by ability to pay. Many people want Blackberry, but only a few are able and willing to buy one. Therefore, marketers do not create needs and they influence the wants.

• **Exchange** involves obtaining a desired product from someone by offering something in return. Five conditions exist in exchange process.

  
  
  (a) Existence of at least two parties.

  (b) Each party has something that might be of value to other party.

  (c) Each party is capable of communication.

  (d) Each party is free to accept or reject the offer.

  (e) Each party would like to deal with the other party.

• **Exchange** takes place when both the parties agree on terms and conditions. Normally, exchange is beneficial to both parties. Exchange is a process. Two parties are involved in exchange and they are trying to arrive at mutually agreeable terms. When an agreement is reached, we say that a transaction has taken place. ‘A’ sell an air-conditioner and ‘B’ pay 15,000 and this is an example of a monetary transaction. However, a barter systems involves trading of goods or services for other goods or services. In many villages, labourers are paid in kind in the form of rice, wheat, etc., instead of wages.

• **In a transfer,** ‘A’ gives to ‘B’, but ‘A’ does not receive anything tangible in return. Donations to political parties, gifts, etc., all transfers. Normally, the transferer receives thank you letters, house-magazines and invitations to events.

**Value and Satisfaction**

According to Louis DeRose “Value is the satisfaction of customer requirements at the lowest possible cost of acquisition, ownership and use”.

A product will be successful if it delivers value and satisfaction to the buyer. Value is a ratio between what the customer gets and what he gives. The customers gets benefits — functional and emotional benefits. The cost include monetary costs, time costs, energy costs, etc. Therefore, Value = Benefits ÷ Costs.

A marketer can increase the value of the product through raising benefits, reducing costs, raising benefits by more than the raise in costs and lower benefits by less than the reduction in costs.

Satisfaction is a function of perceived performance and expectations. If the performance falls short of expectations, the customer is dissatisfied. If the performance matches his expectations, the customer is satisfied. If the performance exceeds expectations, the customer is delighted.

**Marketing channels**: Three types of channels are available to reach the target consumers, *i.e.*: (a) Communication channels (Radio, TV), (b) Distribution channels (Dealers, Distributors), (c) Service channels (Banks, Insurance, Transport)
Meaning of Marketing

Marketing is a comprehensive term and it includes all resources and a set of activities necessary to direct and facilitate the flow of goods and services from producer to consumer. Businessman regards marketing as a management function to plan, promote and deliver products to the clients or customers. Human efforts, finance and management constitute the primary resources in marketing.

Marketing starts with identification of customers’ wants and then satisfying those wants through products and services. The modern concept of marketing is customer-oriented and focuses on earning profit through customer satisfaction.

Prof. Drucker states that the first function of marketing is to create a customer or market. Customer is the most important person in the whole marketing process. He is the cause and purpose of all marketing activities.

According to Philip Kotler “Marketing is a human activity directed at satisfying needs and wants through exchange process”. All marketing activities are basically for meeting the needs of customers and also raising social welfare. We have twin activities which are most significant in marketing: (a) Matching the product with demand, i.e., customer needs and desires or target market, (b) The transfer of ownership and possession at every stage in the flow of goods from the primary producer to the ultimate consumer.

According to William Stanton “Marketing is a total system of business activities designed to plan, price, promote and distribute want satisfying products to target markets to achieve organisational objectives”.

The American Marketing Association defines marketing as the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organisational objectives.

Paul Mazur defined marketing “as the creation and delivery of a standard of living to society”. This definition catches the real spirit of the marketing process. It has consumer-orientation. It duly honours the marketing concept which indicates a shift from product to customer-orientation, i.e., fulfilment of customer needs and desires. It emphasizes the major function of marketing, viz., satisfaction of customer and social demand for material goods and services.

Example: In the case of oral care products, currently only 47% of the rural population use toothpaste, 23% use toothpowder and the rest neither. Targeting non-users in rural areas and developing awareness about oral hygiene and converting them to toothpowder/paste users.

Marketing people are engaged in marketing ten types of entities, i.e., Goods, Services, Events, Experiences, Persons, Places, Properties, Organisations, Information and Ideas.

Features of Marketing

1. Marketing activities are aimed at satisfying the needs and desires of consumers and therefore finding out consumer needs and wants is the starting point for all marketing activities. It starts with consumers and ends with consumers by satisfying their needs.

2. Marketing is a continuous activity and the goods are manufactured and distributed to the consumers as per demand.
3. Marketing deals with exchange of goods and services with money as the medium of exchange.

4. Marketing concept has undergone changes over a period of time, i.e., the recent one is the societal marketing concept which focuses on three factors, i.e., customer demand satisfaction, public interest and profitability.

5. Marketing creates time, place and possession utilities. The consumer is able to obtain the right product at the right time at the right place as and when he requires.

6. Production and marketing are related and production takes place based on the needs and expectations of the consumer.

7. Marketing facilities in large-scale production, employment opportunities and social welfare.

8. Marketing is an integral part of business. The survival and growth of business depend upon the effectiveness of marketing operations in an organisation.

9. Marketing is an integrated process and it is based on strategies and plans.

10. The long-term objective of marketing is profit maximization through customer satisfaction.

**Modern Definition of Marketing**

Modern marketing begins with the customer, not with production, sales, technological landmarks and it ends with the customer satisfaction and social well-being. Under market driven economy, buyer or customer is the king. The marketer should find out what the consumers wish to purchase and how much they are willing to pay. The company should then decide whether the desired product can be produced and sold at the price consumers will pay and at a profit to the company.

**Marketing is an ongoing process of:** (1) discovering and translating consumer needs and desires into products and services (through planning and producing the planned products), (2) creating demand for these products and services (through promotion and pricing), (3) serving the consumer demand (through planned physical distribution) with the help of marketing channels, and then, in turn, (4) expanding the market even in the face of keen competition. The modern marketer is called upon to set the marketing objectives, develop the marketing plan, organise the marketing function, implement the marketing plan or programme (marketing mix) and control the marketing programme to assure the accomplishment of the set of marketing objectives. The marketing programme covers product planning or merchandising, price, promotion and physical distribution.

**IMPORTANCE OF MARKETING**

Marketing is recognised as the most important or significant activity in our society. Production and consumption are the two wheels of an economy which are linked with by the powerful belt of marketing. Therefore, production and marketing are the two pillars of an efficient organisation. A market-oriented economy is a dynamic economy. According to Peter F. Drucker, an eminent management consultant and thinker, the neglect of marketing is one of the main factors which keeps an economy underdeveloped.
Importance of Marketing to the Society

1. Marketing Helps to Achieve, Maintain and Raise the Standard of Living and Quality of Life of the Society: In our society, there are broadly three classes of people, i.e., Upper, Middle and Lower class. However, every member of the society requires certain commodities to make a decent living. A number of products and services such as toothpaste, toothbrush, talcum powder, shampoo, snow, facecream, shirts, trousers, sarees, medicines, fans, lights, air-conditioners, mobile phones, motor cycles, cars, books, foodgrains, vegetables, etc., are made available to the consumers through the process of marketing. Marketing is the means through which production and purchasing power are converted into consumption.

Moreover, marketing process brings new variety of useful and quality goods to consumers. Better marketing gives room for mass production. Under mass production, cost will be low and hence price of the article will be low. Since price is low, people can buy more goods for their money. This will result in a higher standard of living.

2. Satisfaction of Human Wants: Marketing leads to satisfaction of human wants by maintaining a steady supply of goods and services to consumers.

3. Marketing Increases Employment Opportunities: Marketing process increases employment opportunities. Just as every industry provides employment opportunities to thousands of skilled and unskilled labour in various capacities, marketing also provides employment to millions of people. Marketing is a complex mechanism involving number of functions and subfunctions which call for different specialised persons for employment. The major marketing functions are buying and selling, transport, warehousing, financing, risk-bearing, market information and standardisation. In each such function, different activities are to be performed by a large number of individuals or institutions. Industrial workers are getting continuous employment because of the effective marketing machinery.

4. Marketing Helps to Increase National Income: The nation’s income is composed of goods and services which money can buy. Efficient system of marketing reduces the cost to the minimum, this in turn, lowers the prices and the consumer’s purchasing power increases. This will increase the national income.

5. Marketing Helps to Maintain Economic Stability and Economic Development: Economic stability is the sign of any efficient and dynamic economy. Economic stability is maintained only when there is a balance of supply and demand. If production is more than demand, the excess goods cannot be sold at acceptable prices. Then the stocks of goods would be piled up and there would be glut in the market, resulting in fall in price, and depression creeps in. Similarly, if production is less than demand, prices shoot up resulting in inflation. In such a situation, marketing maintains the economic stability by balancing the two aspects — production and consumption.

6. Marketing is a Connecting Link between the Consumer and the Producer: Marketing process brings new items to retail shops from where the consumers can have them.

7. Marketing Removes Imbalance of Supply by Transferring the Surplus to Deficit Areas, Through Better Transport Facilities and This Brings Price Stabilization.

1. **Form Utility**: Converting a product into desired forms. Examples include converting paddy to rice, cotton to cloth, or any manufactured product.

2. **Place Utility**: Transferring products from places of production to places of consumption. This involves transporting goods from factories to different markets.

3. **Time Utility**: Shifting products from the time of production to the time when needed. This includes warehousing, where goods are kept for a long period until demanded by consumers.

4. **Information Utility**: Informing prospective buyers as to availability, source, price, etc. Advertising and sales promotion are meant to provide product information.

5. **Possession Utility**: Transferring ownership from seller to buyer. This involves the exchange process.

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### Fig. 1.3: Utilities Created by Marketing

#### Importance of Marketing to Individual/Business Firms

1. **Marketing Generates Revenue to Firms**: Profit is the core on which the whole superstructure of business is built. Marketing alone generates revenue or income to an enterprise. Functions of marketing develop and widen the markets. When markets are widened, sales increase and thus profit to the firm increases.

2. **Marketing Acts as a Basis for Making Decisions**: The problems of the entrepreneur are what, how, when, how much and for whom to produce. In the past, the producer was in direct contact with consumers. Hence, the problems were tackled very easily. However, today the producer does not have any direct contact with the consumers. Therefore, the problems of the producer become very acute and complicated.

   Nowadays their problem is solved by the marketing department. The marketing department collects all information regarding what, how, when, how much and for whom to produce and this information is passed on to the top management. The top management uses this information for decision making.

3. **Marketing Helps the Top Management to Manage Innovations and Changes**: Marketing and innovations are the two basic functions of any business. We are living in a dynamic world. There is nothing permanent except change. Change is the essence of life and change means progress. The behaviour and demand of consumers keep on changing. Hence, in order to run a business successfully a businessman should adopt himself the changing preferences, changing styles, changing fashions, etc., and innovate new customers, new products, new markets, new methods and procedures. Marketing helps to adopt change and innovation. Retailers communicate to the wholesalers about consumers’ demand. Wholesalers, in turn, communicate to manufacturers about market demand. Market research also acts as a source of marketing information on consumer behaviour and market trends. Salesmen of a market-oriented concern are its ears and eyes for information feedback.
SCOPE OF MARKETING

The scope of marketing is very wide. It may be analysed in terms of marketing performance through various functions. A number of functions are inherent in every marketing process and these functions are to be performed on the basis of various utilities:

**Functions of Exchange**

1. **Buying Function**: A manufacturer is required to buy raw materials for production purposes. Similar, a wholesaler has to buy goods from manufacturer for purposes of sales to retailer. A retailer has to sell the goods to consumers. Thus, functions of buying have to be performed at various levels.

2. **Assembling Function**: Assembling is different and separate from buying. Buying involves transfer of ownership of the goods from seller to the buyer; whereas in assembling, goods are purchased from various sources and assembled at one place to suit the requirements of the buyer. In the case of agricultural produce assembling involves collecting the produce from scattered farms and bring it to a central place.

3. **Selling Function**: Selling involves transfer of ownership from seller to the buyer. Selling function is vital to the success of any firm. Its importance has been continuously increasing in all organisations due to the emergence of severe competition. Producing goods is easy but it is very difficult to sell them.

**Functions of Physical Supply**

1. **Transportation**: It includes decision to be taken on mode of transport, service selection, freight consolidation, carrier routing, vehicle scheduling, processing claims, etc. Transportation involves the movement of goods from the point of production to point of consumption and includes.

2. **Inventory Management**: It includes:
– Short-term sales forecasting
– Product-mix at stocking points
– Number, size and location of stocking points
– Just-in-time (JIT) or push or pull strategies

3. **Warehousing:** It includes the following functions:
   – Space determination
   – Stock layout and design
   – Stock placements

4. **Material Handling:** It includes the following functions:
   – Equipment selection
   – Equipment replacement
   – Order picking procedure
   – Stock storage and retrieval

**Facilitating Functions**

1. **Financing:** The importance of extending liberal credit facilities as a selling tool cannot be underestimated. This would necessarily involve higher working capital requirements. Hence arrangement of finance has become an increasingly important function. Therefore, a marketer can plan for various kinds of finance: Short-term Finance, Medium-term Finance and Long-term Finance. There are various sources of finance, for example, commercial banks, cooperative banks, credit societies, government agencies, etc.

2. **Risk Taking:** There are innumerable risks which a marketing enterprise has to bear in the process of marketing of goods and services. Risks arise due to unforeseen circumstances. Risks can be insured also. For example, the risk due to fire and accidents may be covered by insurance. But the risks due to changes in government policies, risks due to increased competition, technological risks and business cycle risks cannot be insured.

3. **Standardisation and Grading:** Standardisation is the process of fixing certain norms for the products. It involves determination of basic characteristics of a product on the basis of which the product can be divided into various groups. Standards are model products which form the basis for comparison. Grading is a physical process and it follows standardisation. It involves division of products into classes made up of units possessing similar characteristics. Grading is mostly done for agricultural products and mineral products.

   **Examples:** Manufactured products are tested based on standards laid down by the Bureau of Indian Standards and bear ISI label. Agmark is a quality certification mark for agricultural produce.
4. **After-sales Service:** The importance of after-sales service facilities as a marketing tool cannot be ignored. Hence arrangement of after-sales service has become an increasingly important function. Therefore, a marketer has to plan for after-sales service. *For example,* repairs, replacements, maintenance of computers, television, air-conditioners, *etc.*

**Marketing Functions**

In addition to the above functions, modern marketing involves the following functions.

1. **Product Planning:** It involves development and commercialisation of new products, the modification of existing lines and discontinuation of unprofitable products.

2. **Packaging:** The main purpose of packaging is to preserve the quality and quantity of the contents during storage and transit. Besides it has tremendous advertisement value, and facilitates the sale of a product.

*Example:* Sachet packing has created a revolution in the shampoo industry.

3. **Product Pricing** is an important component of marketing. Pricing decisions affect all the parties involved in production, distribution, selling and consumption of goods. Price affects the volume of sales and profit.

4. **Advertising and Sales Promotion:** Advertising is a method of business communication to the prospective customers and the main objective is to promote the products. Sales promotion includes activities such as demonstrations, displays, dealer schemes that stimulate purchases by dealers/consumers. The marketing manager has to take decisions regarding the advertisement/sales promotion activities.

5. **Marketing Research:** Involves systematic gathering, recording and analysing of data about problems connected with product, pricing, promotion and distribution. It deals with research on customer demand, *i.e.,* behaviour of customers, analysis of sales data, market share, *etc.*

6. **Management of Salesforce:** Salespersons are the backbone of the organisation and success of the organisation depends upon how effectively they are able to sell goods and services to meet the changing needs of the customers. The salesperson has to educate the customers on products and services, sell the same with benefit to the customer and profit to the seller.

**Marketing Process**

The marketing process consists of analysing marketing opportunities, researching and selecting target markets, designing marketing strategies, planning marketing programmes and organising, implementing and controlling the marketing effort.

Marketing process brings together producers and consumers — the two main participants in exchange. Each producer or seller has certain goals and capabilities in making and marketing his products. He uses marketing research as a tool to anticipate market demand. Then he provides a marketing mix (product, services, promotion, advertising, pricing, distribution, etc.), in order to capitalise marketing opportunity. An exchange or a transaction takes place when market offering is acceptable to the customer who is prepared to give something of value (money) in return against the product so bought. The producer gets the surplus value in the form of profit which is a reward for
delivering customer satisfaction. The consumer gets the surplus value in the form of utility or individual satisfaction. Market mechanism brings together a willing seller and a willing and informed buyer for mutual gain.

**Marketing as an Activity**

Marketing consists of performance of business activities that direct the flow of goods and services from the producer to the consumer. Marketing aims to understand the needs and wants of consumers and provide products and services. Marketing is a continuous activity as goods are produced and supplied to consumers as per demand. Marketing includes activities such as product planning, pricing, marketing research, packaging, advertising, sales promotion, personal selling and distribution. Therefore, marketing is a human activity directed at satisfying needs and wants through exchange process. It starts with consumers and ends with consumers by satisfying their needs. At the same time it brings profit to the organisation.

**EVOLUTION OF MARKETING CONCEPTS**

Since the industrial revolution, the concept of marketing has undergone significant changes. Companies vary in their approach to business and marketing activities or carried out with different philosophies. Marketing philosophy refers to values, beliefs and guidelines of the organisation.

1. **The Exchange Orientation**

Marketing does involve exchange of a product between a seller and a buyer usually based on money. But modern marketing is not merely an exchange operation. Marketing has now a much wider connotation. It covers search of unmet customer wants, formulation of marketing strategies, marketing mix, creative selling and advertising, serving the customer and so on. All these other vital ingredients of marketing are conveniently forgotten in exchange-oriented marketing approach.

2. **The Product Orientation**

Management firmly believes that if the product has excellent features, quality and performance, customer response is bound to be favourable and all promotional efforts are needless. This was the marketing philosophy till 1930. Overemphasis on product excellence may lead a marketer to ignore many other aspects of customer needs and desires. Consumer for whom the product is meant may be ignored. This is called the phenomenon of marketing myopia or shortsightedness.

3. **The Production Orientation**

Company sells what it can make. The focus is on performance and cost. The product-line is usually narrow. The price is based on production and distribution cost. Technical research enables product improvement and cost-cutting in the production process. Packaging is expected to protect the product and minimise costs. Credit is regarded as a necessary evil. The producer is interested only to minimise bad debt losses. Promotion is adopted only to give emphasis on product features, quality, and price. This concept can work only in a sellers market. In a buyers market it fails to retain market under keen competition. **Examples:** American luxury car market was captured by Japanese and European cars around 1980. The sale of Ambassador cars has come down after the introduction of Japanese cars.
4. The Sales-orientation

Buyers’ market for many commodities brought about sales-orientation in marketing. It focuses on high-pressure salesmanship, aggressive advertising and intensive sales promotion. Sales-orientation gives emphasis on increasing sales volume even at the cost of consumer satisfaction and service. Many marketers adopt this approach in selling unsought or unwanted goods. Examples: The selling concept is found in the sale of books, insurance and also in auto sales. We also have selling concept at the time of elections faithfully followed by all political parties. Sales-orientation also exhibit marketing myopia.

5. Marketing Concept

Under market-oriented business philosophy, planning and coordination of all company activities rotate around the primary goal of satisfying customer needs. The marketing concept is defined as a customer-oriented philosophy duly integrated and implemented through the entire organisation in order to serve customers better than competitors and thereby ensure sustained growth and prosperity. Customer-oriented marketing approach points out that the primary task of a business enterprise is to study needs, desires, and values of the potential customers, and on the basis of latest and accurate knowledge of market demand, the enterprise must produce and offer the products which will give the desired satisfaction and services to the customers (much better than its competitors) The essence of marketing concept is that the customer and not the product shall be the centre or the heart of the entire business system. It emphasises customer-oriented marketing process. All business operations revolve around customer satisfaction and service. The entire marketing mix will be formulated on the basis of marketing information and research. Two radical changes were brought about when the marketing concept was introduced.

- We have a steady shift from producer-oriented or sales-oriented business enterprise to the customer-oriented business enterprise. Marketing and innovation are now the distinguishing features of a business organisation from those of other types of social institutions.

- We have also a gradual shift from Caveat Emptor (buyer beware) to Caveat Vendor (seller beware). This has clearly emphasised the social responsibility of business toward consumer and the need for consumer protection in the marketplace. Marketing concept as a customer-oriented marketing philosophy of the entire business organisation has four premises.

(a) Customer-orientation: The essence of modern marketing concept is “the firm must take its marching orders from the market and it must produce what the market needs”. All elements of business should be geared towards the customer satisfaction. Corporate plans, programmes and operations must be focussed around customer needs and desires.

(b) Marketing Information System: The marketing concept also emphasize the role of information as the key to both customer satisfaction and profitability. Customer demand can never be satisfied without integrated marketing programmes based upon adequate and accurate information about customer, customer needs and competition. Information is a vital resource in planning-action-control process of management.

(c) Integrated Marketing Activities: All marketing activities must be properly integrated and coordinated to accomplish a set of objectives. The activities of other department such as distribution, HR, finance, are to be coordinated from customer’s point of view. All the department should work together to meet customer needs.
(d) **Profitability:** Marketing concept advocates serving the consumers and maximising profits at the same time. These objectives, though conflicting, can be reconciled. Guaranteed route to profits is through customer satisfaction. Profit is a by-product of supplying what the customer wants.

**Benefits of Marketing Concept (Market-oriented Approach)**

A business enterprise adopting the market-oriented business approach can enjoy the following advantages:

1. Long-term success is assured to an enterprise only if it recognises that the needs of the market are paramount.
2. It enables the firm to move more quickly to capitalise on market opportunities. Marketing risks can be reduced only by knowing and understanding the market.
3. Customer needs, wants and desires receive top consideration in all business activities.
4. Greater attention is given to the product planning and development so that merchandising can become more effective.
5. Demand side of the equation of exchange is honoured more and supply is adjusted to changing demand. Hence, more emphasis is given to research and innovation.
6. Marketing system based on the marketing concept assures integrated view of business operations and indicates inter-dependence of different departments of a business organisation.
7. Interests of the enterprise and society can be harmonised as profit through service is emphasised.
8. Marketing information and research is now an integral part of the marketing process and it is a managerial tool in decision making in the field of marketing.

**Consequences of the Marketing Concept**

1. Company makes what it can sell. The focus is now on customer needs and market opportunities.
2. Pricing is based on perceived benefits provided.
3. Packaging becomes a useful tool of promotion and is designed for customer convenience.
4. Credit becomes a customer service and a tool to attract customers.
5. Promotion now emphasises product benefits and aims to solve customer problems.
Fig. 1.5: Sales and Modern Concepts Contrasted

6. Under market concept there is a shift: (a) from product/business to customer, (b) from production to market, (c) from supply to demand, (d) from sales volume to profit, (e) from mere selling to customer satisfaction, (f) from internal-orientation to external-orientation.

7. Under marketing concept, supply becomes the function (result) of demand. Demand is the controlling factor and demand analysis becomes the foundation of all marketing functions.

8. We have four aspects of an intelligent demand management: (a) demand determination through marketing research, (b) product-mix as per demand, (c) promotion-mix to stimulate demand, and (d) distribution-mix to serve demand.

9. Marketing concept will have an appreciable effect on the company whose management is customer-oriented and whose organisation is customer-centred. The general management of the company will be market-oriented and its marketing management will become the cornerstone. The organisation of the entire enterprise will become market-oriented.

10. The marketing plan as well as the business plan of such a company will have customer-oriented approach.

The 3Cs of Marketing

The famous Japanese Management Guru, Keniche Ohmae has stressed the need for integrating the three Cs (Customer, Competition, and Company) to achieve competitive advantage and success in business. The success factors include customer-based strategies, strategic market segmentation, cost-effectiveness, enhancing brand image, product differentiation and efficient use of people, money and assets.

TRADITIONAL AND MODERN CONCEPTS OF MARKETING

Traditionally marketing involved selling goods and services to consumers to earn profit. Since demand exceeded the supply, it was easy sell the goods to the consumers. The consumers had to
accept even poor quality products at a higher price. It is basically a profit-oriented approach and consumers were given least importance in the marketing process. Traditional concept is a narrow and outdated approach in the present highly competitive marketing environment. Old marketing concepts such as exchange concept, production concept, product concept and selling concept would come under traditional concept of marketing.

Modern marketing recognises the importance of satisfying customers wants through products and services. It starts with customer and ends with customer. The famous Management Guru Prof. Peter Drucker states that the first function of marketing is to create a customer and he is the most important person in the whole marketing process. He is the cause and purpose of all marketing activities.

Modern marketing focuses on earning profits through customer satisfaction. The differences between Traditional concept of Marketing and Modern concept of Marketing are given below:

<table>
<thead>
<tr>
<th>Traditional Concept of Marketing</th>
<th>Modern Concept of Marketing</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Traditional marketing involves transfer of ownership of goods from the seller to the buyer.</td>
<td>1. Modern marketing considers creation of customer as the most important purpose of marketing. Focus on consumer and his needs.</td>
</tr>
<tr>
<td>Focus on seller and his product.</td>
<td></td>
</tr>
<tr>
<td>2. It is a production/sales-orientation approach</td>
<td>2. It is customer-oriented approach.</td>
</tr>
<tr>
<td>3. Narrow concept with least importance given to customers and society</td>
<td>3. Broader concept and focuses on customer satisfaction and welfare of the society</td>
</tr>
<tr>
<td>4. Importance given to profit maximisation</td>
<td>4. Route to profit is through customer satisfaction</td>
</tr>
<tr>
<td>5. It was prevalent prior to 1950 when demand exceeded supply</td>
<td>5. It is relevant now especially in a highly competitive marketing environment</td>
</tr>
<tr>
<td>6. It is an old and outdated concept</td>
<td>6. Progressive and modern concept</td>
</tr>
<tr>
<td>7. Least importance to social responsibility</td>
<td>7. To survive and grow, companies are giving importance to corporate social responsibility</td>
</tr>
<tr>
<td>8. Concept of consumerism was not present</td>
<td>8. Protecting the interest of consumers has gained importance.</td>
</tr>
<tr>
<td>9. Aggressive selling and promotion under selling concept</td>
<td>9. Understanding consumer wants and supply of product to meet their requirements. This leads customer satisfaction, repeat sales and profit to the organisation.</td>
</tr>
<tr>
<td>10. Less competition and sellers market</td>
<td>10. Highly competitive marketing environment and buyers market</td>
</tr>
</tbody>
</table>

Fig. 1.6: “Differences between Traditional Concept and Modern Concept of Marketing”

SELLING VS. MARKETING

Marketing is the creation and delivery of a standard of living. Marketing involves: (a) finding out what the consumers want (b) planning and developing a product or service that will satisfy those wants, and (c) determining the best way to price, promote and distribute the product or service. Therefore, marketing is a total integrated process, which aims at customer satisfaction and business success. Under the selling concept the company makes a product and then uses various methods of selling to persuade a customer to buy the article. The differences between selling and marketing concepts are given in Fig. 1.7.
P. Drucker makes the contrast between these two concepts even more diametrically opposite.

1. Under selling concept, the need for some selling is taken for granted. Under the marketing concept, the aim of marketing is to render selling superfluous or unwanted. With full understanding of customer demand, the product must fit or match the buyer needs entirely and it should sell itself without any promotion efforts.

2. A market minded firm’s offering is determined not by the seller but by the buyer. The seller takes his cues from the buyer in such a way that the product becomes a consequence of the marketing effort, not *vice versa*.

3. The suggestions from the buyer are duly incorporated in the cues from the seller and a tailor-made marketing-mix at once fits in with customer needs and expectations.

4. Ideally under marketing concept a customer should be too ready to buy the product on his own initiative. The seller has simply to ensure the availability of that product.

<table>
<thead>
<tr>
<th>Selling Concept</th>
<th>Marketing Concept</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Selling involves planning, direction and control of the personal selling activities of a business unit including recruitment, selection, training, motivation, compensation of salesforce.</td>
<td>Marketing involves: (a) finding out what the consumers want (b) planning and developing a product or service that will satisfy those wants, and (c) determining the best way to price, promote and distribute the product or service.</td>
</tr>
<tr>
<td>2. Emphasis is on the product.</td>
<td>Emphasis is on consumer wants</td>
</tr>
<tr>
<td>3. Company makes a product and then finds out how to sell it.</td>
<td>Company first finds out what the consumer wants and then develops and supplies the product to satisfy those wants.</td>
</tr>
<tr>
<td>4. Emphasis is on company needs.</td>
<td>Emphasis is on market needs.</td>
</tr>
<tr>
<td>5. Selling is production-oriented.</td>
<td>Marketing is consumer-oriented.</td>
</tr>
<tr>
<td>6. Selling assumes that the goods can be easily sold.</td>
<td>Marketing believes that the consumer is the king and goods should meet his wants and preferences.</td>
</tr>
<tr>
<td>7. In selling, once the goods are sold, the seller does not think about the consumer.</td>
<td>All marketing activities start with the consumer and end with the consumer.</td>
</tr>
<tr>
<td>8. Selling aims at profit maximisation by increasing sales volumes and profit is the primary aspect in selling.</td>
<td>Marketing believes in profitable sales through customer satisfaction.</td>
</tr>
<tr>
<td>9. Selling aims at converting goods into cash and has narrow perspective.</td>
<td>Marketing has long range objectives such as customer satisfaction, growth and market share.</td>
</tr>
<tr>
<td>10. Selling concept is traditional and outdated.</td>
<td>Marketing concept is modern and accepted universally.</td>
</tr>
</tbody>
</table>

**Fig. 1.7: Selling versus Marketing**

In his celebrated article ‘Marketing Myopia’, T. Levitt offers the best contrast between selling concept and marketing concept:

1. Selling focuses on the seller’s needs, marketing on the buyer’s needs.
2. Selling is pre-occupied with the seller’s need to convert his product into cash; marketing with the idea of satisfying the customer’s needs by means of the product and the whole cluster of things associated with creating, delivering and finally consuming it.

3. Selling aims at profit through sales volume; marketing aims at profit through serving customer demand.

RECENT TRENDS IN MARKETING

CUSTOMER RELATIONSHIP MANAGEMENT (CRM)

The opening up of our economy through liberalisation and globalisation has led to increase in production and availability of a variety of products services. The market is flooded with different brands of these products and product differentiation is becoming more and more challenging. Therefore, acquiring and maintaining long-lasting relations with customers would enable the organisation to increase sales and profits.

Definition of CRM

Parvatiar and Sheth (2001) have defined CRM as “a comprehensive strategy and process of acquiring, retaining and partnering with selective customers to create superior value for the company and the customer”. Gronroos (1990) stated “CRM is to establish, maintain and enhance relationship with customers and other partners, at a profit, so that the objectives of the parties involved are met”.

Practitioners and consultants use Customer Relationship Management (CRM) to refer to technology-enabled processes for customer interactions and relationship building, while marketing academicians prefer the team ‘Relationship Marketing’ (Ref. G. Shainesh and Jagadish N. Sheth, Customer Relationship Management, MacMillan India Ltd., New Delhi (2006)).

Features of CRM

1. Customer Relationship Management (CRM) initiatives focus on building and maintaining profitable and long-lasting relations with the customers and creating superior customer value and customer satisfaction.

2. CRM focuses on cooperative and collaborative relationship between the firm and its customer. The focus is creating, growing, and retaining customers. Normally, a customer buys a product that offers the highest perceived value, i.e., the difference between all the benefits and the cost of the product compared to that of competition. Customer satisfaction denotes the extent to which a product's performance matches with the expectation of the buyer. If the product matches his expectations, the customer is satisfied. If the performance exceeds expectations, then the customer is delighted.

3. Relationship management requires putting customer first and genuine customer involvement through communication and sharing of knowledge.

4. The customer is not to be treated as one-time purchaser but as a person who will patronise the brand for lifetime. If the customer is taken care, sales volume, market share and profits will grow.
5. CRM should focus on Customers (consumers, users and channel members) and the brands.

6. CRM makes use of IT and database, interactivity through websites, call centres and other means of contacting customers. CRM solutions are provided by Siebel, Oracle CRM, Mynap CRM and others. These CRM suites have the following facilities:
   - Demand planning
   - Interactive selling
   - Sales and service contact centres
   - Analytics capability
   - Accounts management
   - Automatic routing capability
   - Mobile sales and service support.

Two important factors to be considered while selecting the customers are:

   (1) Lifetime value of the customers is based on the idea that customers who generate revenues throughout their lifetime are more valuable than those who only make one transaction. **Example:** When a bank provides credit card, education loan to students for professional courses like MBA, these students may not be profitable in the initial years when they are studying. If the bank retains them after studies, they are profitable since many of them receive high-paying jobs.

   (2) Share of the customer: Some customers are more valuable to the firm than others and over a period of time, the amount of money the customer spends with the firms can increase. **Example:** An automobile company like Maruti increasing its share of customers expenses through car loans at the point of sales, car insurance and servicing and spare parts, exchange offers, etc.

Customer and dealer research provide valuable inputs for developing CRM activities. **Examples:** Dealerwise, monthwise productive sales, payment pattern of dealers, key consumers and their offtake of different products, etc.

**Relationship Selling**

Personal selling plays a major role in selling consumer durables and industrial products. Some executives feel that all customers are important and all should be treated equally. This approach is good for building relations with public but does not take into account customer value and contribution to company sales and profits. It is a well established fact that all customers do not contribute the same value to the company. Further, only a small percentage of the customers contribute to a large percentage of the total sales volume and profit.

**Selection of Customers**

Important factors to be considered while selecting the customers are:

   (a) **Benefits:** Concerned about quality, price, service

   (b) **User status:** Non-user, Ex-user, potential user, occasional user and regular user
(c) Usage rate: Light user, medium user and heavy user

(d) Shop/Brand loyalty: None, medium and strong

(e) Attitude to product: Enthusiastic, positive, negative and hostile

It is not possible for a salesperson to meet all the customers and develop relationship with them. To start with he has to select a few customers in each market so that he can offer more personalised service, which makes them feel happy and important.

Dealing with Distribution Channel Members

1. Distribution Channel: The channel members consist of wholesalers (distributors) and retailers and the company has to develop relationship with these channel partners. Distribution channel initiatives are designed to improve sales and profitability of the territory by developing a network of committed retailers and offering value-added services and solutions. In order to be successful in the marketplace, the channel partners particularly the distributors, should align their activities with the management objectives of the company. Companies are using Internet and other IT tools to avoid manual processing of data and promote positive channel partner experience.

2. Distributors: The company should initiate, at least on an annual basis, Business Development Plan Meeting with all the distributors. The meeting should focus on business performance, during previous year, areas for improvement (applicable to the company as well as the distributor) and plans for the next year. Incentives for achievement of agreed targets should also be discussed and finalised during the meeting. This meeting provides an opportunity for the senior managers of the company to interact with distributors and sort out pending issues, if any. The plan should not remain on paper and, therefore, the sales executive and the reporting manager should do necessary follow-up and assess the progress made during the course of the year. All genuine problems have to be addressed in the interest of the distributor and the company. The sales executive and the distributor could undertake joint tours and sort out the problems of retailers. The sales executive should also organise training programmes for distributors’ promotion and sales staff to improve their performance.

3. Retailers plays a major role in sales, since they have close association with consumers. Further they extend credit facilities and push products where the margins are high. While there may be a large number of retailers engaged in selling, only a small percentage of retailers contribute to large percentage of the sales and profits of the company. The company should create database showing retailerwise information such as total sales value, volumes of different products sold, cash and credit transactions and company’s share in his total business. It has been observed that about 20% of the retailers contribute to about 80% of the business done by a company in a sales territory and, therefore, the sales executive should identify potential retailers and develop relations with them. Some of the activities which will increase the involvement of the retailers are:

- Detailing the products and highlighting product benefits.
- Involving him in product demonstrations displays and meetings.
– Credit facilities.
– Sales incentives for achievement of agreed targets.

Retaining Customers

It has been observed that acquiring new customers is a costly process compared to retaining existing customers. Further, a large percentage of profit comes from long-term customers and, therefore, the companies have to focus on existing customer-base. When a company loses a customer, it loses much more than a single sales transaction. It loses the entire business the customer would make over a period of time known as ‘customer lifetime value’. Companies lose customers for a variety of reasons:

(a) If the customer finds that the price is high compared to the benefits offered by the product, he may buy another product;

(b) When a new product, with more features, is offered in the market, the customer may buy the new product;

(c) The customer may buy another product due to personal reasons such as easy availability, influence of friends and relatives and indifferent nature of the service provider;

(d) Some customers (Natural floaters) keep on changing brands particularly in the case of FMCG products.

However, many customers do not make complaints about products or services and some of the reasons are, i.e.,

(a) The supplier may not take action on the complaint;

(b) Have to spend lot of time and efforts in filing complaint and follow-up;

(c) Not aware of the procedure for complaining;

(d) Uncomfortable to make complaints;

(e) The supplier may argue and bulldoze the customer;

(f) The customer does not bother about the problem, he simply switches over to another brand.

Customer Relationship Management Programmes

(1) Customer loyalty programmes offer additional benefits to loyal customers who patronise company’s products and services. Example: Hotels, airlines, shops, credit card providers offer additional benefits in the form of bonus points, coupons, etc., to customers for repeat purchases.

(2) Customer service centres deal with customer complaints and offer solutions to their problems.

(3) Customer clubs provide opportunities for interaction between the customer and the company. The company tries to meet the needs of customers and provide them with goods and services that lead
to customer satisfaction. **Example:** Many companies have formed ‘Achievers club’ which offers membership to distributors and dealers based on their sales performance.

(4) **Customer retention programmes** aim at retaining loyal customers by offering them target-oriented schemes such as achievement of sales targets, new product volumes and prompt payment of outstandings, etc.

(5) Many companies have initiated **Customer interaction programmes** through online (websites, e-mails, chat room) and offline (telephone, fax, telephone) and outsourcing (call centres) activities.

(6) **Direct mailing:** It is a way of sending information relating to goods and services directly to prospects and customers. It can be used for sending an offer, reminder or announcement to a particular customer, i.e., consumer, retailer, or distributor at a particular address. It is employed by company to bring in a personal touch. Some of the points to be considered in preparing mailers are: design of the envelope, personalised sales letter, reply form and postage-free reply envelope. Greeting cards could also be sent during festivals such as Diwali, X-mas, Baisakhi, Durga pooja, etc. E-mail service is useful in the case of customers like corporate executives, dealers and distributors. The message arrives immediately and many companies have started using the same for sending product information and schemes.

(7) **Telemarketing** involves use of telephone to contact new and existing customers, to take order and to know the market situation. Telemarketing would be an additional support to the sales executive. Creating a central database of customers, timely communication and answering queries are essential for success of telemarketing programme.

**Brand**

Many people feel that brand relates to product name, company name or logo. In fact, brand is much more than that. Brand includes company products, services, behaviour of company staff, distribution channel, and use of technology and management processes. It is the sum total of the experience of customers with the company. A company may have high quality products, but if a distributor has to make repeat calls/send reminders for settlement of genuine claims, then the inordinate delay is damaging the brand. The company has to integrate the activities of sales, management, accounts, and logistic departments to develop positive brand image.

**SOCIETAL MARKETING**

It is broadened marketing concept and management is called upon to bring about balance of three factors: (1) Customer demand satisfaction, (2) Public interest (social awareness), and (3) Profitability.

The environmental trends like public welfare, increasing concern for better ecological or living environment on the earth or the higher quality, *i.e.*, enrichment of human life, now stress that all organisations would have to adopt socially responsible marketing plans and programmes in order to assure social welfare in addition to customer satisfaction.

The societal marketing concept is a management philosophy that believes in assessing the needs and wants of consumers on target market and to adapt the organisation to produce and market goods to give expected satisfaction more effectively than competitors in such a way that preserves the consumers and society’s well-being.

The societal marketing concept is based on the following premises:
1. The marketer has to fulfil the customer demand and also to contribute to enrichment or quality of life.

2. The marketer shall not offer a product to consumers if it is not in the best interests of consumers.

3. The marketer will offer long run consumer and public welfare.

4. The integrated marketing plans and programmes shall duly consider consumer-citizen wants. Social welfare and corporate needs, i.e., sustained economic growth without ecological imbalances and disturbances. In essence, widened marketing concept will enable marketing management to create and deliver not only materials for good standard of living but also healthy life in the universe free from environmental degradation.

It has been observed that, while meeting customer wants, the marketers have neglected society’s needs.

**Examples:**

- *For the convenience of consumers, many companies have introduced carry-away plastic bags, plastic trays, disposable cups and all these items are thrown all over the place causing environmental problems.*

- *Food products, mineral water, cosmetics, soft drinks are all packed in attractive plastic containers and pose health hazards and disposal problem.*

- *Increase in demand for two-wheelers/four-wheelers has caused high fuel consumption and at the same time adding to traffic congestion, air and noise pollution and safety problems.*

Many consumers are also concerned with environmental problems and they will prefer to use environment-friendly products. Companies are trying to adopt ‘Green Marketing’ as a part of business philosophy. Green marketing refers to designing, pricing, promoting and distributing products and services that will not harm the environment. Thus there is a shift from consumer-friendly to environmental-friendly products.

**CAUSE-RELATED MARKETING**

Cause-related marketing refers to a type of marketing involving cooperative efforts of a business enterprise and a non-profit organisation for mutual benefit. The term is used broadly and generally to refer to any type of marketing effort for social and charitable causes. Cause-related marketing differs from corporate philanthropy as the latter generally involves a specific donation that is tax-deductible, but cause-related marketing is marketing relationship generally not based on donation. **Example:** *On the sale of Aashirvaad Atta (1 kg.) ITC contributes 20 paisa towards agricultural development.*

The creation of the term cause-related marketing is attributed to American Express and it was used to describe the campaign led by American Express in 1983 for the Statue of Liberty Restoration Project. American Express made a one cent donation to the Statue of Liberty every time someone used its charge card. The number of new cardholders soon grew by 45 per cent and card usage increased by 28 per cent.

The possible benefit of cause-related marketing for business includes positive public relations and improved customer relations and additional marketing opportunities.
STUDY QUESTIONS

1. What is a market? What are the types of market?
2. What is marketing? Give the modern definition of marketing.
3. Enumerate the marketing functions and describe those functions.
4. Describe the evolution of marketing concepts.
5. Distinguish clearly between selling and marketing.
6. Write short notes on the following:
   (a) Needs, wants and demand
   (b) Societal marketing concept
   (c) Convenience/Shopping goods
   (d) Classification of goods
7. Bring out the differences between cause-related marketing and societal marketing.
8. “The customer is not to be treated as one-time purchaser, but as a person who will patronise the brand for lifetime.” Examine the statement and explain the importance of CRM in today’s highly competitive marketing environment.
CASE STUDY

Nutrela has become the Generic for Soya in India

When Ruchi Soya Industries Limited (RSIL) set up its business in the 1970s, its focus was on oil extraction from soyabean. Soya meal was just a by-product. Then, a decade later, the company decided to try and market soya meal as a high-protein add-on to vegetables or meat — and Nutrela was born. Now Nutrela has become the generic for Textured Soya Protein (TSP) in India. Having experimented with Nutrela in the past, not always successfully, the company is now extending the ‘120 crore brand into the snacks segment where it will compete against well-entrenched categories such as instant noodles. And Nutrela is also moving into a category where the action began — oils.

When the RSIL entered the Indian market for soyabean in 1969-70, the total soya crop in the country was around 50,000 tonnes a year. At present, the crop is 7 million tonnes. They were among the first to set up a crushing plant for soyabean in 1972. Soyabean is put through a solid extraction process, which yields oil as well as meal. In its raw form the meal can be used as animal feed, but with superior processing it is suitable for human consumption.

For close to a decade after the company started production, they used to export the meal as animal feed. Then, in 1979-80, they decided to venture into the production of TSP. They spent 5 crore on importing the TSP process from the US, which was a significant sum of money in those days. There was a risk, of course, in the venture. There was a huge export market for TSP if the product failed in India. Besides, it believed there was immense potential for high-protein, low cost food in this country. Nutritional levels in India are extremely low and for most people vegetarian foods like almonds are not affordable; on the other hand, soya is a rich source of protein. The message was nutrition, so they chose the name Nutrela.

The initial communication centred on proving that Nutrela was economical, even compared to Malted Food Drinks (MFDs). The choice of comparison was deliberate; targets were children and housewives. Even the packaging resembled MFD cartons. Also they wanted to show that, much like MFDs, soya could become part of the daily diet if it was added to vegetables.

Nutrela was launched first in Madhya Pradesh and Uttar Pradesh since production unit is located in Indore in Madhya Pradesh. Also, they would be easier to sell the concept of soya chunks in these regions since there was a high awareness of soyabean here. But they were surprised to find that the product found its way to Punjab and West Bengal, even before we launched in those States. We hadn’t expected such an easy acceptance of soya chunks in the north and east markets. We conducted a dipstick survey to study the trends in these markets, and the results were interesting.

The target audience was supposed to be the vegetarian consumer who could use the chunks as an extender to paneer or as a substitute to vegetables. Nutrela would be particularly relevant in areas where vegetables were not grown or were not available for some periods of the year. Madhya Pradesh was one such market. But research indicated that it was the non-vegetarians who were buying the product since soya chunks are similar in texture to meat. Nutrela was proving a good substitute for meat, at one-fourth the cost. It was also being used as an extender (add-on) in food. In markets like Kolkata, for instance, soya chunks were added to fish to increase the quantity of the dish.

Spread the Word

To convey this message to a larger section of consumers we took on ad agency Everest in 1988-89 to create a television commercial. Compared to what other food companies were spending at the time, 1.5 crore for the initial, year-long campaign was huge. The ads showed different ways of using soya chunks in Indian cooking; the product packs also carried detailed instructions. The communication on the product packs also compared the protein content in soya with other protein sources — 1 kg. of Nutrela has as much protein as 20 eggs or 10 kg. of almonds and so on. That made an impact with consumers. Another initiative that helped was the sampling exercises, our representatives cooked dishes with soya chunks and consumers were offered a taste. This was
particularly important from the vegetarian customers’ point of view — there was skepticism among vegetarians about Nutrela because soya chunks were similar to meat in look and feel. So we were compelled to conduct demos. The demos that took place in cities helped in tackling taste apprehensions.

Our learning here was that ‘give the consumers what they want, not what you want them to have’. For instance, in the US, soya milk is the most popular but in India we had found that people did not want a substitute for milk. Instead, Chinese cuisine, which was gaining popularity at that time, proved a good entry point. And soya is a key ingredient in Chinese cuisine. We outsourced a field force to conduct demonstrations and cookery classes and hired a Chinese chef to train local chefs. That proved so successful that we continue the practice even today. Interaction with customers was vital for the growth of Nutrela as a brand and sought ways of reaching out to our customers. We introduced free recipe booklets, customised to regional cuisines to teach people how soya could enhance and be used in their day-to-day food. We also encouraged consumers to write in their own recipes. We organised events like the Cookery Queen contests in the late-1980s and early-1990s. Now, when more younger women are logging on to websites to get new recipes, they have launched website as well to offer recipes and health-related information.

**Lend ‘em Your Ears**

Market research has been crucial in their decisions regarding variants of Nutrela. The feedback showed that customers wanted smaller soya chunks to add to peas or chana dishes. So, in the mid-1980s, they launched Nutrela granules and mini-chunks. In the West, granules are mixed with sausages or added to gravies as a thickener. In India, too, granules proved popular as extenders to dals and gravy dishes, while the chunks were often used as substitutes for paneer cubes. The best-sellers, of course, are still the big chunks.

Similarly, when we learnt that customers did not find the TSP tasty on its own, we introduced flavoured soya chunks. But the tomato and spinach-flavoured Nutrela didn’t take-off because customers preferred to use fresh vegetables rather than pre-flavoured soya. Also, there was a perception that tomato and spinach didn’t go well with soya. They withdrew the product within a year of its launch, especially because it was also making our production more complex and tedious.

The biggest product decision that resulted from consumer insight was the launch of soya flour. During their cooking demonstrations in Kolkata, they noticed that housewives didn't throw away the water in which they cooked Nutrela (Soya chunks have to be boiled before they are added to food). Instead, these women used that water to knead flour. They were ensuring that no protein was lost. And that made us think: ‘why not launch a soya flour?’ So, in the mid-1980s, they launched soya flour under the Proflo brand. It did not catch on. But then, even branded wheat flour has not gained complete acceptance yet and atta is still a largely unorganised market. The biggest problem with the Indian market is initiating any change in food habits. That's why they haven't launched soya flour in big packs at all — apart from the 50 kg, bags for export and institutional sales, the largest size is the 1 kg, pack. Rather than changing age-old habits of wheat or maize atta, they encourage consumers to mix 100 or 50 grams of soya flour with any other flour to make it healthier.

Surprisingly, they got a lot of institutional sales from soya flour. A number of FMCG companies as well as restaurants use the flour for their products. Hence, the individual customer will accept it sooner or later. That is why, two years ago, they launched Proflo and brought it under the Nutrela band. It would have been too expensive to promote a new brand. As Proflo was not selling, we got it under the Nutrela umbrella.

While they were trying to increase the Nutrela portfolio, they considered various options, toyed with the idea of coloured soya chunks like in the US market, where reddish-coloured chunks are sold that resemble meat. But they decided against it because in any case, non-vegetarians used chunks as fillers in meat dishes. More importantly, we didn't want to confuse or put-off our vegetarian audience. They also thought of launching coloured mini-chunks for kids, but ultimately decided against it. One reason was the less-than encouraging response witnessed for the natural-flavour chunks. Other options considered — and discarded — are of chunks that resemble paneer cubes, which could be a low-fat option to paneer.
The Price of Success

Success isn't without its own share of problems. Especially in West Bengal, the concept of soya chunks has worked so well, that there are at least 30 look-alike products called Nutella, Nutila and so on. These counterfeited products are priced much lower but we cannot compete with them. The company could not cut prices because there is a 16 per cent excise duty on packaged soya. Instead, they sold 20 kg. institutional packs of Nutrela — many retailers bought and sold it loose.

To make consumers buy Nutrela packs, they launched flavoured soya chunks — but with a difference. Their inspiration came from products like Nestle's Maggi noodles, which comes with a separate tastemaker. The ready-to-cook soya dish is in granules form. Since granules absorb masala faster than the chunks, a tastier dish is available instantly. They launched three flavours — Chinese Manchurian, Korma Masala and Spicy Curry. We've begun by launching this brand extension in Kolkata. That's because Kolkata is one of the bigger soya markets — 30-40 per cent of Nutrela food sales come from the city. We hope to replicate Maggi's success with Nutrela flavour.

The promotional efforts are centred on schools in the city. We have found that mothers in Kolkata generally do not return home after dropping their children at school. Instead, they wait outside until the children are through with their classes. They plan to take advantage of this time and conduct cooking demos at schools for the mothers, while the school is in session. They feel the market is opening up to ready-to-cook type of products. They took close to two years to research what flavours to introduce, test them and develop the tastemaker. They roped in Research International A.C. Nielsen to do the research because taste varies from region-to-region. They had to find out what flavours suit all plates on a broad parameter. It was only after that they launched these pan-Indian, ready-to-cook soya dishes.

They are now in the process of launching region-centric flavours too. The challenge is in the south where soya is not accepted. We are in touch with nutritionists and health experts to promote acceptance by adding soya to the dough of chapatis or dosas or even mix it with upma. Until recently, they had not introduced oils under the Nutrela brand simply because Nutrela stands for health, while oil is not perceived as healthy. So there would have been a conflict. They contemplated for a long time on whether it would be right to extend into nonsoya oils for the fear of diluting Nutrela's brand identity. But research indicated that in the consumer's mind, Nutrela did not stand for just soya but for health.

So they decided to extend Nutrela into oils. We have recently launched healthy and fortified oil variants like sunflower and soya oil as Nutrela Healthy Oils. They did not launch these oils under the already existing oil brand Ruchi, because Ruchi soya oil is our mass brand. Nutrela is the health brand. The emphasis on advertising and marketing remains unchanged. They have spent close to 7 crore on promoting Nutrela Oils and 1 crore on Nutrela flavour.

Questions

1. Write a brief summary of the case.
2. Do you think that the company has followed “a market-oriented business philosophy?” Explain.
3. Discuss the stages in product development with reference to Nutrela.

Comments

Under market-oriented business philosophy, marketing starts with identifying customer wants and then satisfying those wants through products and services. The company produces what customer wants and what it can sell. In this case, RSIL, who are pioneers in soyabean products have spent lot of time, money and efforts in understanding consumer wants through marketing research, field observations and customer feedback. They have created demand for their products through customer-centric promotion (demonstrations, cookery classes, recipe books, TV commercials) and packaging. Planning and coordination of all marketing activities are aimed at satisfying customer wants.