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Lesson No.

2.1 : Product Decisions

2.2 : PLC (Product Life Cycle)

2.3 : Pricing Decisions

2.4 : Distribution and Channel Management

2.5 : Promotion Mix

2.6 : LAWS Related to Marketing

Department website : www.pbidde.org

BBA PART-II	**PAPER – BBA : 303**
SEMESTER-III	**PRINCIPLES OF MARKETING MANAGEMENT**

LESSON NO. 2.1	**AUTHOR : APAR SINGH**

Product Decisions

Lesson Structure

2.1.1 Product planning

2.1.2 Defining a product

2.1.3 Levels of Product

2.1.4 Classifying consumer products

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2.1.7 Modifying existing Product lines

2.1.7.1 Expanding and Reducing the Product Line

2.1.8 From Generic to Potential product

2.1.9 Different strategy stances that firms can adopt

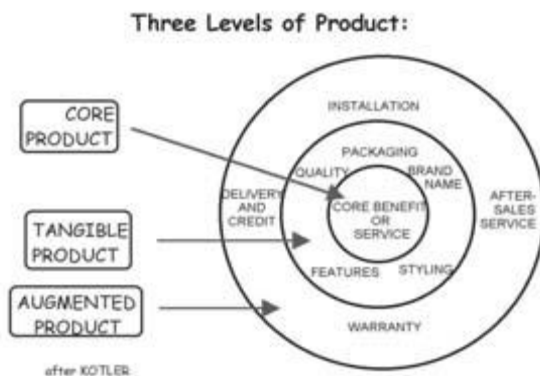
2.1.1 **Product Planning** is the ongoing process of identifying and articulating market requirements that define a product's feature set. Product planning, basically refers to the systematic decision making related to all aspects of the development and management of a firms products including branding and packaging. Each product includes a bundle of attributes capable of exchange and use. The organizations that are production-oriented look at a product basically as a manifestation of resources used to produce it and the organizations that are marketing oriented view a product from the target consumer's perspective as a bundle of benefits by benefits.

2.1.2 Defining a product

You can say a product is a good, service, or idea consisting of a bundle of tangible and intangible attributes that satisfies consumers and is received in exchange for money or some other unit of value. Accordingly they will have to see how their consumers view their products. Most of the organizations have realized that there is no need to prepare a marketing mix for a product that offers few consumers benefits, because that product will not sell. You have to consider the product from the target customer's perspective. Like the cosmetic companies are combining chemicals to make lipsticks, vitamin manufacturers produce little pills, watchmakers produce mechanical devices that keep time. -What are marketers doing they are basically enhancing their products for their target markets-as lipstick has becomes beauty and hope, vitamins become hope for a healthier life and watches become status symbols? So we can say that a product therefore is a bundle *of* physical, chemical and / or intangible attributes that have the potential to satisfy present and potential customer wants. In addition to the physical **Good** itself, other elements include the **warranty, installation, after sales service accessories** and **package.** A customer buying an air-conditioner and a maintenance contract from Carrier Aircon is buying a different product than another who buys the same model without the maintenance agreement. Prof. Philip Kotler, "A product is made-up of three parts : Tangible Product - materials construction. Extended Product Part - services and Generic Product Part - the benefits."

2.1.3 levels of Product

Now lets discuss the levels, that are present in a product



Level 1: Core Product. This level is basically related to what is the core benefit your product offers? Just suppose you are purchasing a camera you should be clear that you are not just buying a camera but you are buying something more then just a camera, by this you are purchasing memories

Level 2 Actual Product: but one thing which all of us know is that all cameras capture memories. In this case the marketer should make sure that your potential customers purchase your product. The strategy at this level involves organisations *branding, adding features* and benefits to ensure that their product offers a differential advantage from their competitors

.***Level 3: Augmented product:*** now the question is what additional non-tangible benefits can you offer? At this stage the competition is based around after sales service, warranties, delivery and soon. John Lewis a retail departmental store offers free five year guarantee on purchases of their Television sets, this gives their 'customers the additional benefit of '**piece of mind'** over the five years should their purchase develop a fault

2.1.4 classifying consumer products

The most common basis for classifying consumer products is based on buyer behavior. The classification is based on differences in the buying behavior of the people who buy the products (it is basically how you perceive and buy the products) not on the differences in the products themselves. The system works because many consumers behave alike in buying a given type of product. This helps marketers in making generalizations to guide development of their marketing mixes. Four classes of consumer products are

(1) Convenience products (2) Shopping products

(3) Specialty products, and (4) Unsought products.

(1) Convenience Products

They are basically low-priced, nationally advertised items like cigarettes, toffee, or blades and matchboxes. These are bought frequently but consumers rarely shop actively for them because they are low value items whose price and quality do not justify active involvement. They are widely available at many outlets. Three subclasses are:

i) **Staple Products**: This includes milk, bread, eggs, butter which are bought routinely because the family regularly consumes them. The decision to buy these

products is programmed after the first time when the consumer puts them on his list of regular items.

ii) **Impulse Products**: Purchases of Impulse products are absolutely unplanned exposure to the product triggers the want. The desire to buy staple products may cause the consumer to go shopping.

The desire to buy impulse is a result of the shopping trip. That is why impulse products are located where they can be easily noticed. Stardust and Savvy magazines, toffees and chocolates (placed at a child's eye-level) are examples of impulse products.

iii) **Emergency Products**: Purchases of emergency products result from urgent and compelling needs. Often a consumer pays more than if this need had been anticipated. Example of this would be hotels permit shops vending toothbrushes and shaving blades set up in their lobbies to cater to travelers who have forgotten theirs at home.

(2) Shopping Products

These products involve price and quality comparisons. Shoppers spend more time, cost and effort to compare because they perceive a higher risk in buying these products. Shopping products can be homogeneous or heterogeneous.

i) **Homogeneous Shopping Products**: they are products, which are considered to be alike. Just suppose you want to buy a colour television, you are aware that most of the brands are very similar then you will limit your shopping effort to price comparisons. Thus sellers tend to engage in price competition. But most of the time you will find that the manufacturers may also stress upon on the differences on the basis of design and try to distinguish between the physical product and its product related services. One might set up service centers to differentiate its product from rivals. A retailer might advertise that the Color TV's price includes 6 months or free interest financing. Consumers who want to stretch their disposable incomes are more likely to consider a product as a homogeneous shopping product than as a convenience product.

ii) **Heterogeneous Shopping Products** they are product that are considered to be unlike or non-standardized. Consumers shop for the best price quality combination. Price often is secondary to style and quality when price comparisons are difficult to make. Using price to compare clothing, jewellery, cars, furniture and apartments is tough because quality and style vary within each product class. Just suppose a couple is searching for a flat may spend a lot of time

comparing decor, floor plans, distance from stations and so on. Once they find the right one, price becomes important. If the rent is reasonable compared to the alternatives, they probably will lease it.

(3) Specialty/ Special Products

In this case you as a consumers will **make a special effort** to buy specialty products. For these products consumers have **strong convictions** as to brand, style, or type. Mitsubishi Lancers, Ray- Ban glasses, Leica Cameras and Johnny Walker Scotch Whisky are examples. Consumers **will go out of their way to locate and buy these products** because they perceive quality and other benefits in owning them. There is no **Comparison Shopping.** Doctors, Lawyers and Accountants who enjoy a large following are selling specialty products. Marketers try to create specialty status for their products with advertising phrases like "accept no substitutes", ""insist on the real thing", and so on. They build customer loyalty when consumers consider their brands to be specialty products. But specialty product **can be less intensively distributed** than a convenience or shopping product because buyers **will search to find it.**

Unsought Products

They are products which are present in the market but the potential buyers do not know that such product exist or there can be a possibility that the buyer don't want it**.** There are two types: regularly unsought products and new unsought products.

Like Life Insurance, a lawyer's services in contesting a will, a wreath and a doctor's services in an emergency are regularly unsought products. These are basically existing products but the consumers do not want to buy this product now, although they may eventually purchase them. Marketers face a tough challenge in persuading consumers to buy their new unsought products. The marketer's task here is to inform target consumers of the products existence and stimulate demand for it. Oral polio vaccine was once a new unsought product. But heavy promotion and acceptance of the product practically eradicated polio.

Using the Classification System

Because the classification system is based on buyer's behavior, it is actually you as consumers who determine which category a given product belongs to in a given situation. Thus any given product **may be classified differently by different consumers** or by the **same consumer in different situations.** For example,

many consumers consider the services of **dentists to** be a **specialty product.** These consumers are therefore, loyal patients. Patients who shop for the best price and buy dental services from dental clinics that advertise low prices, probably consider dental services to be a **homogeneous shopping good.** There are also plenty of people who consider dental services a **regularly unsought product.**

Even in buying the same product, a given consumer may behave differently in different situations. Continuing with the same example that we have discussed (dental services), a consumer who has just moved into town might “shop around” to gather information about price and quality before selecting a dentist. To that person, dental services are a **heterogeneous shopping product.** If that same person were to develop a toothache while vacationing in a strange town, he or she would likely consider dental services to be an **emergency product.**

The examples we have discussed basically suggest that marketers should not be product oriented in thinking about their market offerings. They should view their products from their consumers’ shopping behavior. Doing this they often can come up with new approaches to segmenting the mass market for a product category.

2.1.5 Services

A service business is one that provides an **intangible product for its consumers. Like** Non-profit organizations, including government, also provide many services to consumers and industrial buyers. We can say that services differ from physical products in that they are intangible and **production and consumption occur together. For example** Hotels, beauty shops, laundries, movie theatres, airlines, banks and real estate are some examples of service firms. They are mostly small compared to manufacturers of physical products and have greater **difficulty reducing costs and increasing productivity through mechanization and automation. There is lot of** progress being made, in bringing the benefits of the electronic age to marketers of services.

You would have noticed that most of the hotels now have computerized link ups with airlines and other hotels in the chain for reservations and transfers to improve their management of occupancy rates. Banks are offering Automatic Teller Machines (ATMs) to enable customers to withdraw cash 24 hours a day. Services like tangible consumer products, **can be classified on the basis of buyer behavior.** Many of us consider computerized tyre balancing outlets to be a **convenience service.**

Many also probably consider childcare to be a **shopping service.** Most consumer services that involve a lot of skill probably are considered **specialty services.**

Characteristic of Services

1. **Sold exclusively on the basis of benefits** since there is no physical product to sell. Thus a good reputation and word-of-mouth publicity are crucial in marketing services.
2. **Cannot be produced in anticipation of demand** because they are consumed as they are produced. They cannot be stored in inventory.
3. **Time utility is crucial** because services cannot be stored. Time spent idle is time lost forever. That is why appointments are usually required.
4. **Cannot be produced in one location for consumption in another.** This is one reason why service firms tend to be small.
5. **Perish upon offering:** A person who misses a music concert can never recapture it as it perishes as it is produced.
6. **Once consumed it cannot be returned to seller.** Consumers will be extra careful in selecting service vendors as a risk reducing method.
7. **Quality control** is tougher than for tangible products and may vary **by time of day or** server's attitude. Consumer and industrial products both have life cycles that we will discuss next.

2.1.6 What is the Core Benefit?

The dominant benefit of satisfaction that a customer expects from a good or service he or she buys. This is the central benefit that the user derives from usage of the product/service.. This can be identified by asking "what needs and desires does this product fulfill?" The core benefit can be very simple (one major benefit) or very complex (numerous benefits of varying importance). The classic example of cosmetics actually selling hope or beauty is well known. A more relevant example may be that of test equipment delivering reliability; insurance which delivers security/peace of mind; or word processing software which delivers the ability to communicate effectively. (It is not the computer code most people consider they are buying). It is important to consider the benefit that is being purchased from the customers' perspective. This is termed the Core Benefit Proposition and as such can be the most powerful aspect of promotion and new product development. *The Physical Aspect* of the Complete Product is the actual tangible element. Even in the

case of services where there is no physical product, there is a physical deliverable aspect in terms of literature designs and styling, branding, packaging, and levels of quality offered. *The Augmented Product* is often the aspect that determines the purchase of one service or product over another in a commodity market. These are the factors that support the physical product in delivering customer satisfaction:- delivery and installation, documentation, training, service and maintenance, accessories , even payment terms. In technology markets often the compatibility of the product with international standards will improve sales. Indeed in technology markets the augmented intangible aspects of the offering are now driving the purchase of tangible products. All companies therefore offer a Complete Product, however it is only those that explicitly understand the matching concept, which will offer the most successful complete products.

Appraisal of the product line and the individual products- No product line is perfect and also does not run for all times to come. Changes happen in the business environment, customer tastes and preferences, extent of competition that pressurise the product policy of the firm. New, changed, advanced products are introduced or even old products are withdrawn from the market by the companies to revive the lost market image, to overcome the treat of functional obsolescence due to new improved /substitute products introduced by competitors, to regain profitability or when the product has entered a stage of decline. Firm needs to constantly monitor the company's product policy. When we say a firm's product mix we are actually discussing about all product items it offers.

Hindustan Lever's product mix includes agro-chemical products, soaps, detergents, toothpaste, shampoos, Talcum powders, cosmetics and now, frozen foods.

Just suppose any organization is marketing more than one product then it has a product mix.

- Product item—a single product
- Product line—all items of the same type
- Product mix—total group of products that an organization markets

It is basically a group of products that are **related because of customer, marketing and or production considerations. e g** Rin, Wheel, Rin Solarox, Rin detergent powder, Surf, and Surf Ultra are part of Lever's detergents line and Le Sancy, Lux, Rexona, Lifebuoy, are part of its soaps line. When we are discussing about a typical large multi-product firm's product mix includes new, growing,

maturing and declining products. Table actually presents the lists of several reasons many firms choose not to limit themselves to one product.

Table : Reasons many firms do not want to limit themselves to one product.

1. To counteract the effects of the PLC on a one product firm.
2. To even out seasonal sales patterns.
3. To use company resources and capabilities more effectively.
4. To capitalize on middlemen and consumer acceptance of established products.
5. To spread production and marketing costs over a wider product mix.
6. To become better known and respected by middlemen and consumers.

Breadth & Depth

Now you have a fair idea on what is a product mix. In product you have to define the structural dimensions of breadth (or width) and depth. Breadth refers to the number of different product lines. Depth refers to the number of product items within each line.

A firm can expand its product mix by increasing the number of product lines **or** the depth within one or more product lines. HLL expanded in breadth when it entered the agro-chemical business. It expanded in depth when it bought TOMCO a soaps and detergents company.

Width of product mix

Hindustan UniLever's Product Mix and Product Lines (partial listing)

Detergent	Soap	Tooth Paste	Talcum	Cosmetics	Agro-Chemical
Rin Bar	Le Sancy	Close up	Liril	Fair & lovely	
Wheel Bar	Lux	Pepsodent	Ponds	Lakme lipsticks	
Rin powder	Rexona				
Wheel powder	Lifebuoy				
Surf	Liril				
Surf ultra					

so many companies market just one or two product lines, and hence their product mix is narrow. **Do you know in which all areas General Electric operates?** It basically operates in diverse fields, and has broad product mix. You can see in Fig that each product mix has a *depth, which* is given by models, colours, sizes, available in each individual product lines.

Pharmaceutical company has a product line of antibiotics. It has several dosage forms like it can be in the form of capsules, dispersible tablets for children, vaginal suppositories, injections, eardrops, eye drops and Syrups under the dosage form and then the size of the package can be different. The company has several brands of antibiotics, and each brand has several dosage forms and sizes. We can say, that its product mix has depth. On the contrary, a few products, in one size only as one brand is an example of a shallow product depth. All the decisions related to product lines offers are from company's strategic plan and marketing plan. It considers the segmentation of the market and targeting. Just suppose an organization wishes to target young' children, it can add a whole new product line for it. New product lines are either a matter internal development or can be acquire. Each product line also can be expanded. The important idea is that the product line of a company reflects the objectives of the organization, the targeting decided upon and the buyer behaviour in a given market.

2.1.7 Modifying existing Product lines:

Product line is a group of related products manufactured by a single company. We have a number of reasons to alter either an existing product or a product line. The reasons could be to support marketing strategy, to improve sales, to improve profits, to expand market share. We can also consider what the product as such

contributes to the product portfolio. We can modify a product line by altering either one or more than one of the following attributes:

(1) Composition of the product line

(2) Expansion or contraction of product line Characteristics

(3) Value addition process

(4) Brand

(5) Packaging

(6) Physical

(7) Positioning

The first two attributes are relevant to a set of products in the product line. The rest are relevant to either individual products or product lines.

2.1.7.1 Expanding and Reducing the Product Line:

There are many models of TV available in the market. There is a large variety of radio sets from Sony. Underlines bras are available in a number of styles. Syrups and crushes are available in many flavours, e.g., Rasna concentrates and Mala's crushes. There are technical products with higher and lesser sophistication. We find many product categories where consumers prefer to have a great variety for their satisfaction. Marketers are adopting strategies of adding new versions with new specifications, while retaining the old versions for the less sophisticated consumers. Sometimes this addition of new products to existing line is done to include complementary products, e.g., a toothpaste marketer may add toothbrushes to the product line. Camel may introduce paintbrushes, which go welt with its water colours.

Sometimes, there are occasion to delete a product/products from the line. A product, which shows decline in terms of sales, may be abandoned. Non-contributing products may be eliminated. While doing so, it should be seen that other products in the product line are not affected.

Product line length:

Now you should ask a question what is the optimum size of a product line?

A line is too long if after eliminating a product is results into increased profits. A line is too short when any addition to it results into increased profits. One thing should be clear that the Company's overall objectives do affect the length of its product line. For instance, a company may have the objective of expanding its market share. It will then have a longer product line. Contribution of individual products to profits may be ignored. However, a company whose objective is to have

larger profits will have a shorter product line consisting of those items, which contribute to profits substantially

Product lines have a tendency, to lengthen over a period of time. Many a time, a firm may, have extra capacity, which is used for developing new items. . Sales people and trade put pressure on management to keep on adding items to a product line so as, to satisfy their customers. Lengthening of the line shoot up costs. At some point, this must come to halt. Loss making items are then eliminated. The contribution of items to profits is studied. Thus in the life of an organization, there is a cycle of longer product line followed by a pruned product line. This cycle is repeated again and again.

Line stretching

Most of the companies have range of products in its existing product lines, like Videocon has a range of TVs in its product line, right from budget TVs to premium TVs. Line stretching occurs when this range is lengthened. This stretching could be upward, downward or both ways. Every company's product line covers a certain part of the total possible range. For example BMW automobile, market line stretching occurs when a company lengths its product line beyond the current product range.

Upward stretching:

Here a company operates in the lower end of the market. By upward stretch, it proposes to enter the higher end. Perhaps, it is motivated by higher margin of profits, higher growth rate or a position of a full-range marketer. This decision has its own risks. A well-established high-end marketer might assault the stretcher by stretching downwards. Besides, it is a question *of* credibility of a lower-end marketer -whether he will be able to produce high quality products. There is one more risk. The existing infrastructure of a low-end marketer may not be competent to deal with the high-end market.

Downward stretch:

Lets start with an example: like all of you know parker, parker started with pens only at high price but if we look at parker today we can see products available in the range of 50 Rupees which no one could have thought of in older times. Many companies start with high-end products, but later stretch downwards by adding 1ow-priced products. The down-end products are advertised heavily so as to pull customers to the whole line on the basis of price. Videocon advertises its budget line 14" inches TV at Rs. 8,000. Once the customer is pulled, he may decide to buy

a higher priced model- he trades up. This strategy needs careful handling. The budget brand being promoted should not dilute the overall brand image. Besides, the budget brand must be available. Consumers should not get a feeling that they were hooked to a bait, for switching later.

Downward stretch is practiced in the following situations:

- A competitor stretches upward and challenges the marketer. He counter-attacks him stretching downwards
- Most companies start at the upper end, and then roll downwards.
- The high-end market has a slow growth rate.
- By filling the gap at the low-end, new competition is avoided.

Downward stretch has its own risks. The down-end item might cannibalize the high-end items. Besides, our downward stretch might provoke a competitor to move upward. Down-end product may not be managed properly as the company may not have that capacity. It may dilute the brand image of the company's products. It is, however, needs careful consideration - a product line should not have a gap at the lower-end. It exposes the company to competition, e.g., American car companies faced the competition from small-sized, Japanese cars at the lower-end of the market.

Two way stretch

Beside upward and downward stretch *you* can even stretch in two ways like severall companies serve the middle-end market. They can stretch their product line in both the directions. A hotel company operating hotels in the comfort category where each room has a tariff 2000-3000 a day might decide to have elite upper-end hotels with tariffs of Rs. 5000-7000 a lower-end budget hotels with tariffs of Rs. 600-1500 a day. Ashoka group of ITC has thus elite 5-Star hotels, at the upper-end comfort hotels at the middle-end and budget hotels like Ashoka Yatri Niwas at lower end.

Cannibalization:

When the sales of the firms new products are due mainly because of decreasing sales of its existing and established product then we say that cannibalization has occurs in brief we can say by this youare actually eating away your own market.

A good example of it would be Hyundai Santro they have introduced Santro Xing as a new product in the market in other way they have cannibalized their own market,

like a person who wanted to buy Santro old model will buy Xing as it latest so they are not capturing new customer but converting their own customers only if they are able to make a person buy their product where he was planning to buy some product of Maruti then it is not cannibalization.

If you want to avoid cannibalization, the new product should not be identified too closely with established products. Instead it should be targeted with new appeals to different market segments. Cannibalization is desirable when margins on new products are higher than those on established Products. In highly competitive industries, it is often desirable to induce target customers to trade up to the firm's newer products. This strategy is adopted by Videocon International, Which entered the market with a low priced color TV with basic features and then introduced more sophisticated models up the price scale in order to ensure that customers in all segments would buy only Videocon products.

2.1.8 From Generic to Potential product - Most of you would be aware that a product has a personality of several components-like the physical products, the brand name, the package, the label etc. all of us know that most of the products are undergoing a constant change and the marketing man has been constantly engaged in enriching his product offer. In his attempt to score over competition, he has been bringing about refinement on his basic product offer, but managing the product was becoming

more and more difficult. Hence the product travelled various levels:

- The Generic product
- The branded Product
- The Differentiated product
- The customised product
- The augmented product
- The potential product

The Generic product Is the unbranded and undifferentiated commodity like rice, bread, flour or cloth.

The Branded Product The branded product gets an identity through a 'name'. Modern bread, Harvest are branded products. We would study in detail about brand name in the brand section.

The differentiated product

The augmented product is the non-physical part of the product. It usually cobnsists of lots of added value, for which you may or may not pay a premium. The differentiated product enjoys a distinction from other similar products/brands in the market. The differential claimed may be 'real', with a real distinction on ingredient, quality, utility, or service, or it may be 'psychological' brought about through subtle sales appeals. The customised product - Customer specific requirements are taken into account while developing the product. Commonly practised in the industrial product marketing, where the manufacturer and the user are in direct contact and the product gets customised to the requirements of the customer.

The augmented product

The augmented product is the result of voluntary improvements brought about by the manufacturer in order to enhance the value of the product, which are neither suggested by the customer nor expected by them. The marketer on his own augments the product, by adding an extra facility or an extra feature to the product.

The potential product

The potential product is tomorrow's product carrying with it all the improvements and finess possible under the given technological, economic and competitive condition. There are no limits to the 'potential product'. Only the technological and economic resources of the firm set the limit.

Product differentiation - Is the act of designing a set of meaningful differences to distinguish the companies offering from competitor's offerings? The number of differentiation opportunities varies with the type of industry. The Boston consulting

group has distinguished four types of industries based on the number of available competitive advantages and their size.

1. **Volume industry**: One in which companies can gain only a few, but rather large, competitive advantages.
2. **Stalemated industry**: One in which there are a few potential competitive advantages and each is small.
3. **Fragmented industry**: One in which companies face many opportunities for differentiation, but each opportunity for competitive advantage is small.

4. **Specialised industry**: One in which companies face many differentiation opportunities, and each differentiation can have a high payoff. Theodore Levitt in one of his books "Marketing Success, through differentiation of anything" explains that in a market place, there is no such thing as commodity .All goods and services are differentiable. In a market place differentiation is everywhere. All the companies try to distinguish their offer from that of their competitor. This is true of even those who produce and deal in primary metals, grains, chemicals, plastics and money. Starting from technology to plant location to post sale service firms to the personnel/procedures employed for various functions like sales, production etc., companies can differ their offers in many ways. Companies usually choose those functions, which give them greatest relative advantage.

2.1.9 Different strategy stances that firms can adopt

It is natural for different firms to take different strategy stances as the requirement; situational design of each is different from the other. One firm might find it appropriate to have direct confrontation with the market leader; another may find it appropriate to keep aloof for some time from the competition; and the third might may find it relevant to chalk out a strategy of sheer survival. No strategy stance is universally valid. Broadly strategy stances can be classified under three heads-Offensive/ confrontation strategy, Defensive and Niche strategy.

Offensive Strategy -Is the strategy of aggression usually employed by the firm that is not presently the leader, but aspires to leadership position in the industry. It acts as a challenger and the leader is mostly its target. It tries to expand its market share and utilises all the elements of the marketing mix in attacking the leader.

Defensive Strategy -Is usually employed by the leader who has the compulsion to defend his position against the confrontation of powerful existing competitors or strong new entrants trying to remove the leader from the topmost position. The leader has to maintain constant vigilance and defend its position against the attack of the challengers.

Niche Strategy - Is usually employed by firms, which neither confront nor defend itself. It cultivates a small market segment for itself with unique products/services; supported by a unique marketing mix. Small firms with distinctive capabilities adopt this stance. A market niche to be worthwhile must have characteristics such as reasonable size, profit potential and growth potential.

There can be different types of differentiation - It can be broadly categorised into

1. Product-A seller face abundance of design parameters including form, features, performance quality, conformance quality, durability, reliability, style and design.
2. Services-When a physical product cannot be differentiated, the key to competitive success may lie in adding valued services and improving their quality .The main service differentiators are ordering ease, delivery, installation, customer training, customer consulting and maintenance and repair
3. Personnel-Better trained people are an asset to the company as they can provide competitive advantage to it. Better trained personnel exhibit six characteristics; Competence, Courtesy, credibility, reliability, responsiveness, communication
4. Channel-Companies can achieve competitive advantage through the way they design their distribution channels coverage, expertise and performance.
5. Image-Is the way the public perceives the company or its products. It can be communicated to the customer by means of symbols, media, atmosphere, events etc.

Finally in this lesson you should understand that in any product strategy, a crucial decision is about branding. Basically branding a product means a long-term investment in building that brand by spendingon promotion, advertising and packaging. There are manufacturers who manufacturer a product but leave the branding decision to the marketers to whom they hand over the product. However, the fact remains that brand name gives power to the firm. Brand name marketers with no manufacturingbase are still at an advantage. They can anytime change the anufacture. Whereas Taiwanese firms remained only manufacturing firms, say, in textiles and consumer electronics, Japanese and Korean firms did both manufacturing as well as branding to consolidate their position. LG TV (Now available in India), Sony TV (now made in India) and Toyota are very well built brand names. Brands ultimately command customer loyalty.

Self-exercise

1. What product should the company make?
2. Where exactly are these products to be offered?

3. What should be the width of the product mix?
4. How many different product lines can the company accommodate?
5. How should the products be positioned in the market?
6. What should be the brand policy?

BBA PART-II | **PAPER – BBA : 303**

SEMESTER-III | **PRINCIPLES OF MARKETING MANAGEMENT**

LESSON NO. 2.2 | **AUTHOR : APAR SINGH**

PLC (product life cycle)

Lesson structure

2.2.1 Product Life Cycle

2.2.2 Stages of PLC

2.2.3 Implications of product life cycle:

2.2.4 Product Management Strategies for Extending the PLC

2.2.5 Relative Advantage

2.2.6 New Product Development Process

2.2.1 Product Life Cycle

Product life cycle is a business technique that attempts to list the stages in the life span of commercial/consumer products. Product life cycle is used for determing the life span of these products.

"The product life cycle (PLC) depicts a **products sales history** through 4 stages:

(1) Introduction (2) Growth

(3) Maturity (4) Decline

One thing should be clear to us that adjustment **and changes** must be made **in the product's marketing mix** as it moves through its life cycle because of **changes** in the **competitive environment, buyer behavior, a**nd the **composition of the market.**

'The PLC concept can be applied to a product **category** (perfumes), to a particular **product form (r**oll-ons and sprays) or to a particular **brand** (campa or pepsi).

Life cycle of the product category is the longest and that of the **brand the shortest usually.** If we talk in terms of practicality, the PLC is **applied most directly to product forms.** Product forms like spray perfumes, felt-tipped pens and mini-skirts go through a sales history of introduction, growth maturity and decline. **Product categories,** on the other hand, often **tend to stay in the maturity stage** for decades or longer, while the life cycles of individual **brands can be extremely erratic** depending on the effectiveness of their marketing programs. Prof. Philip Kotler, "It is an attempt to recognise distinct stages in the sales history of the product."

2.2.2 Stages:

Introduction Stage

In this stage you are basically launching a new product (from brand or category) that is the reason that it is called the introductory stage. As all of us know introducing new product is **always a risky venture,** even for a skillful marketer. Almost every company as had spectacular failures. A **new product category requires a longer introductory period** because **primary demand** (demand for the product category as opposed to the demand for a specific brand) **must be stimulated.** Even a brand that has achieved acceptance in other markets will require introduction in new markets. Now you should know what is selective demand it's a demand for a specific brand within a products category**.**

Basic goals in the introductory stage

The basic goals in the introductory stage are to induce acceptance and to gain initial distribution. Promotion is needed to inform potential buyers of the product's availability, nature and uses, and to encourage wholesalers and retailers to stock it. At this stage funds are invested in promotion on the expectation of future profits. As discussed with you earlier that it is similar to human life so if we talk in terms of baby what did your parents do? At that particular stage they were investing in you and were not bothered about any return part of it so, if we say the same thing in marketing terms then the product in the introductory stage the situation is that the profits are negative because of the sales volume is low, distribution is limited and promotional expenses are high. A company must choose its launch strategy consistent with its intended product positioning. It should

realize that the initial strategy is just the first step in a grander marketing plan for the product's entire life cycle. If the marketer chooses the launch phase to make a quick buck, he will be sacrificing the long-term interests of the product.

Growth Stage

Now we are at a growth stage where we have successfully launched our product, the sales have begun to increase rapidly in this stage, as new customers enter the market and old customers make repeat purchases. At this point of time you need to add new dealers and distributors; new pack sizes may need to be introduced. This is the stage of peak profits. As new customers are attracted, the market expands, attracting competitors who copy and improve on the features of the new product. New product forms and brands enter. Competition intensifies and industry profits begin to decline at the end of the growth stage, but total industry sales are still rising. In this phase, the company faces a trade-off between high market share and high current profit. By spending a lot of money on product development, promotion, and distribution, the company can capture a dominant position. In doing so however, it gives up current profit and hopes to make it up in the next stage.

Maturity Stage

At this stage you will find greater number of competitors, competitive product forms, and brands exist in the maturity stage. Rivals copy product features of successful brands and they become more alike. Thus price competition develops along with heavy promotions of whatever unique brand features still exist. Industry sales peak and decline as the size of potential markets begins to shrink and wholesaler and retailer support dwindles because of declining profit margins. Middlemen often introduce their own brands, which makes the competition even tougher. You will find decline in industry profits accelerates further. Most of the times you will find that the sales are repeat sales to earlier buyers. There is little growth potential for the product. It is during this stage that marketers are focusing effort on extending the lives of their existing brands.

In this stage you will find that many products may appear unchanged, the most successful ones are actually evolving to meet changing consumer needs. Product managers has to play a very important role at this stage infact he should do more to extend the lives of their mature products rather than allowing it to coast into decline. They should consider modifying the market, product and marketing mix.

Decline Stage

Now we have reached to the final stage of the life cycle. Product forms and brands typically enter into decline; stages while product categories last longer. It is basically because of Competitions that the product forms and brands enter into the decline stage. Sales and profits decline rapidly and competitors become more cost conscious.

Characteristics, Objectives and Strategies

	Introduction	**Growth**	**Maturity**	**Decline**
Characteristics				
Sales	Low sales	Rapidly rising sales	Peak sales	Downwords
Costs	High cost per customer	Average cost per customer	Low cost per customer	High
Profits	Negative	Rising profits	High profits	Negative
Customers	Few	Growing Number	Stable number beginning to decline	Decreasing

Brands with strong acceptance by some customer segments may continue to produce profits. Thus Sanifresh is still a leading toilet cleaner though its powdered form is less popular than liquids. At time even you would have read that carrying a weak product can be very costly to the company and not only in profit terms. There are hidden costs in terms of management time, sales force attention, frequent inventory re-adjustments, and advertising changes. For these reasons, companies need to pay attention to their dying products. At times management may decide to maintain its brand without changes in the hope that some competitors will leave the market. Or it may decide to 're-position the product in the hope of moving it back to the growth phase in a new avatar. You will find that the management may even decide to harvest the product that means reducing various costs and moping that sales hold up. But if successful, harvesting is done then the company's profits in the short run will increase. Or management may decide to drop the product from the line. It can sell it to mother firm or simply liquidate it at salvage value. If the company wants to sell the product to mother buyer, it will not rundown the product through harvesting.

2.2.3 Implications of product life cycle:

1. Introduction - Businesses are always seeking better ways to grow profits and maximize revenue from the sale of products or services. Revenue allows a company to maintain viability, invest in new product development and improve its workforce; all in an effort to acquire additional market share and become a leader in its respective industry.

A consistent and sustainable revenue stream from product sales is key to any long-term investment, and the best way to attain a stable revenue stream is a Cash Cow product. Cash Cows are leading products that command a large market share in mature markets. Cash Cows display a Return On Investment (ROI) that is greater than the market growth rate, and thus produce more cash than they consume. The question is therefore*: How can a company develop a Cash Cow product?* One way of doing so is by applying relevant product marketing strategies, a.k.a. competitive moves, at the various stages that make a **Product Life Cycle (PLC)** - The Product Life Cycle (PLC) model is a relatively new theory, which identifies the distinct stages affecting sales of a product, from the product's inception until its retirement. Companies that successfully recognized those stages and subsequently applied a custom marketing mix at each stage were able to sustain sales and defend or win market share. By deliberately extending the length of time spent at each of the PLC stages through different marketing tactics, companies were also able to realize much of the revenue potential a product can offer.

2. Product Life Cycle Model Assumptions At the core of the PLC model are the following simple assumptions: All products have limited life spans. Product sales pass through different and distinct stages. Each stage presents a different marketing challenge, which calls for the application of a customized marketing mix.

3. Product Life Cycle Model Stages - A PLC is traditionally viewed, from a marketing perspective, as being comprised of four distinct stages: ***Introduction, Growth, Maturity* and *Decline***. In the Introduction stage, the product is introduced to the market through a focused and intense marketing effort designed to establish a clear identity and promote maximum awareness. Many trial or impulse purchases will occur at this stage. Next, consumer interest will bring about the Growth stage, distinguished by increasing sales and the emergence of competitors. The Growth stage is also characterized by sustaining marketing

activities on the vendor's side, with customers engaged in repeat purchase behavior patterns. Arrival of the product's Maturity stage is evident when competitors begin to leave the market, sales velocity is dramatically reduced, and sales volume reaches a steady state. At this point in time, mostly loyal customers purchase the product. Continuous decline in sales signals entry into the Decline stage. The lingering effects of competition, unfavorable economic conditions, new fashion trends, etc, often explain the decline in sales

4. Reasons For Extending The PLC - Understanding and extending the PLC stages allows a company to fully exploit long-term business development opportunities, and defend or establish a competitive advantage through a lasting market presence. The main business reason for extending the PLC is to gain more sales through longer presence in the marketplace. The main marketing reason is since not all consumers are alike, certain consumer types will adopt a product at different stages of the product life cycle. By extending each stage of the PLC there is a better chance of exposure to the relevant consumer group. Extending the PLC should not be confused with extending the life of the product, which goes to enhanced durability or quality.

5. Strategies For Extending The PLC - The nature and type of applicable marketing efforts will vary with each stage, and the level of variation depends on the product type, market conditions, consumer audience and projected PLC timeline. It is hard to predict a transition from one PLC stage to another (because of measurement lags) and proactively react to the change with targeted action. However, through proper marketing mix design and contingency planning it is possible to apply variousmarketing and product strategies at the beginning of a particular stage, when it arrives. The underlying approach with any of the strategies listed below is Targeted Improvement.

2.2.4 Product Management Strategies For Extending The PLC

Product Diversification - *Creating different product variants*. Microsoft's family of Windows 9.x operating systems allowed the software giant to continuously extend the life cycle of this desktop computer operating system. Windows 95, Windows 98, Windows 98SE, Windows ME, Windows XP, Windows7 are among the better known variants. Coca Cola's vanilla flavored coke is a recent example and a new variant to the venerable Classic Coca-Cola drink.

New Product Uses - Applying the core product to different uses. Apple Computer has been very innovative and successful by finding additional uses for

its Macintosh computer, such as desktop publishing and strong graphics/animation capabilities.

Apple's Digital Hub concept extends the Macintosh's functionality even further to serve as a center for managing multimedia files from cameras, DV recorders, scanners, and MP3 devices. [iii] On the retail side, in the world of Consumer Packaged Goods (CPG), Arm & Hammer had devised over several decades a multitude of deodorizing uses for their core product, baking soda.

Changing Product Layers - Altering the product features and creating different product families. Hewlett-Packard's InkJet and LaserJet printers are examples of product families that share the same technological core. So are Jell-O's product families of puddings, colored gelatins and snacks; all based on raw gelatin.

Re-Positioning - Changing the perceived values and intent, a product has in the mind of the consumer.

Microsoft's Windows NT was designed as a multi-tasking, multi-threaded, multifunctional desktop operating system. It was based on work done by Microsoft for IBM's OS/2 and in terms of its feature set resembled Unix more than it did Novell's NetWare. NetWare, a Network Operating System (NOS) and Novell's flagship product, dominated the File& Print server market in the early 90's to the tune of 75% market share. Through massive and prolonged positioning efforts, Microsoft was able to persuade corporate IT departments that Windows NT could be more than just a powerful desktop OS, and could replace NetWare as the departmental File& Print server. Novell tried unsuccessfully to shield NetWare from Windows NT, by attempting to position UnixWare (Novell's Unix based OS) against Windows NT.

Co-Branding - Enhancing (or diluting) the product's brand equity by association with another strong brand. In an attempt to boost sales, IBM announced in 2001 a joint effort with J.D. Edwards & Company to market a specialized IBM eServer called the IBM eServer for J.D. Edwards, optimized to run J.D. Edwards' collaborative commerce software for small to medium size businesses. These types of co-branding initiatives are nearly always an attempt to capitalize on synergy between brands and products.

Re-Packaging - Literally placing the product in a new package as to revive its appeal. This is common practice in retail markets with the introduction of new labels, different container sizes and different container types, such as Colgate's toothpaste in a tube or pump dispenser. In the computer

software world, virtual repackaging is done through the introduction of a new visual GUI (Graphical User Interface) while application functionality remains relatively unchanged.

Re-Branding *- A drastic and costly measure used to disassociate the brand from the previous values associated with it.* The key concern with such a move is maintaining existing market share. For example, in 2000, IBM re-branded its eCommerce software application, Net.Commerce to WebSphere Commerce. It also re-branded its line of servers as eServer (formerly Netfinity). This was an attempt by IBM to make a fresh entry and position itself as a competitor in the world of Unix and Intel based servers dominated by Sun Microsystems and Dell Computers. Sometimes companies re-brand themselves in an effort to build new reputation and brand equity - Datsun/Nissan vehicles, Borland/Inprise software products, and GTE/Verizon telecomm services.

Increasing Frequency of Use - Encouraging consumers to break away from traditional molds of product usage. Chivas Regal was always considered a fine Scotch whisky to be consumed on special occasions such as weddings, or given as a gift. Through a worldwide advertising campaign, Chivas was able to increase consumption by delivering a consistent message about the brand's broader appeal.

New Markets and Segments - This strategy is an attempt to penetrate nontraditional *markets or consumer segments*. Companies are able through exploratory research to discover the potential of geographically remote markets (Asia, Africa, former Soviet Bloc) or new consumer segments (seniors, minorities, women). During 2001, Subaru specifically targeted women as a new automotive consumer segment, realizing their strong potential as first owner buyers. .

Pricing and Special Offers - Pricing is a positioning tool and a way to influence sales through the use of various price, payment schemes and models. Price manipulation can take place at all stages of the PLC, including the Introduction phase. For example, only six months after its launch in November 2001, Microsoft reduced the price of the xBox game console in North America by about 30%.

6. Strategy Application Within The PLC Model - Planning which product marketing and management strategies to apply, and when, should be part of any long-term approach. Since there are so many diverse products, markets and companies, it is difficult to provide a definitive, single methodology for strategy

selection and application. However, some general guidelines can be followed to help ensure marketing mix effectiveness in promoting a PLC stage extension. Once a decision to extend a PLC stage has been made, the following elements must be factored into the planning:

- *The Company's product line strategy* - leader, follower, innovator, niche player, etc.
- *The Company's marketing policies* - soft or hard product launches, traditional choice of media vehicles, pricing policies, sales channels selection, etc.
- *External constraints* - government regulations, distribution networks, cultural barriers, politics, tariffs and taxes, etc. Sometimes a certain strategy may seem applicable to all PLC stages. Price manipulation is an example of something that can be used at all stages of the PLC to help influence sales and serve as a flexible way to rapidly react to competition. The drawback of repeatedly applying a certain strategy or using several strategies at once, is that it may confuse the consumers. Exercising any such combined approach should be well justified. Below is a table noting the strategies considered most applicable to their respective PLC stage.

7. Limitations Of The PLC Model - In marketing terms, a product's life cycle consists of its introduction, growth, maturity and decline, as measured in changes in sales and market share over time. The PLC concept postulates that even most successful products may rose their appeal eventually due to forces such as changing consumer demand or technological obsolescence. Achieving to a product life cycle concept offers potential advantages and disadvantages for the company. It is difficult to foresee transitions in PLC stages since the key indicator are sales, which are always calculated with some lag. Therefore, the realization a stage transition has occurred is nearly always in retrospect. In addition, fluctuations in sales will produce erroneous conclusions, so slowing sales do not necessary mean the product has reached the Decline phase and the resulting conclusion to retire the product and divert resources is wrong. Products, companies and markets are different, so not all products or services go through every stage of the PLC. There have been many cases where products have gone straight from introduction to decline, usually because of bad marketing, misconceived features, lack of value to the consumer or simply a lack of need for such a product.

However, even if products would go through every stage of the PLC, not all products/services spend the same length of time at each stage. This adds another level of complexity in determining which PLC stage the product is in and consequently, which strategy to apply. Finally, the PLC model is inefficient when dealing with Brands or Services. Brands are not products but do have a life cycle of their own, and products belonging to a certain brand will experience a very different life cycle than the brand itself. For example, Dell and Mercedes-Benz are very strong brands whose life cycle is marginally affected by the failure of any of the products, which they hold. Apple Computer's Lisa, Newton (*market failures*) and iMac (*market success*) are proof that brands and products have different PLC's although they are closely related. [v]

8. Benefits Of The PLC Model - Managers are always in need of predictive tools to help them navigate a seemingly chaotic market, and the PLC model gives managers the ability to forecast product directions on a macro level, and plan for timely execution of relevant competitive moves. Coupled with actual sales data, the PLC model can also be used as an explanatory tool in facilitating an understanding of past and future sales progression. The PLC model aids in making sense of past events as part of any extrapolatory and interpretive approach to building strategy. Once a product strategy or product line strategy has been formulated, the PLC model can be used as part of an ongoing strategy validation process since it reflects on market trends, customer issues and technological advancement. Companies always anticipate the emergence of new competitors and therefore, must prepare in advance to battle the competition and strengthen their product's position. The PLC model is advantages in planning long-term offensive marketing strategies, particularly when markets and economies are stable. Nevertheless, most products die and once products are dead they hold no substantial revenue potential and are a toll on a company's resources. By combining the elements of time, sales volume and notion of evolutionary stages, the PLC model helps determine when reasonable to eliminate dead products.

9. Conclusion - Keeping a product alive for decades is a sign of successful PLC extensions; and brand/product combinations such as Heinz Ketchup, Hershey Chocolate and Gillette's Safety Razor are clear indicators of such extensions. Through consistent PLC management, a company will be able to improve products and become a marketplace leader.

The Adoption & Diffusion Process -The PLC concept is related to the adoption and diffusion processes. The adoption process affects the length of a products life cycle.

The Adoption Process The adoption process is the series of stages a prospective buyer goes through in deciding to buy and make regular use of the product. This should be clear to you that no product will survive the introductory stage unless some potential buyers actually buy it.

The prospect first learns of the **new** product but lacks information about its use, benefits and so on. The prospect searches for information about the new product. The prospect mentally considers whether the new product would be useful. The customer makes a trial purchase of the product to determine its utility The customer decides to make regular use of the new product.

When we discussing about the marketing effort is basically related to directing on the move of the potential customers quickly to final adoption. In this he/she hope that promotion in the introductory stage of the PLC will create **awareness** of the product and **arouse interest** in it so that customers may evaluate it. If the product is expensive, radical and complex, the perceived risk may be greater than its perceived benefits. Less expensive products are often distributed as free samples. The goal is to induce **trial** by reducing perceived risk. Customers who make a trial purchase make a monetary commitment to the product and then evaluate the "rightness" of the decision. Rivals may attempt to switch them to their brands. There is no assurance that customers will make a commitment ever after adoption; as we have seen, they may experience dissonance, which may lead them to seek further information or confirm the wisdom of their decision. Providing this information may enable the marketer to reduce dissonance and raise brand loyalty. In different product cases you will find that the adoption rate is different lets focus on the points, which create some level of difference in the adoption process.

Basically there are five-product characteristics that affects the rate of speed with which a new product is adopted. These are: (1) Relative advantage (2) Compatibility (3) Complexity (4) Divisibility and (5) Communicability.

2.2.5 Relative Advantage

It is related to perception the greater the product's perceived superiority over previous products in terms of lower price, greater utility etc., the faster the adoption rate. Examples are Teflon coated cookware, disposable diapers and electronic typewriters.

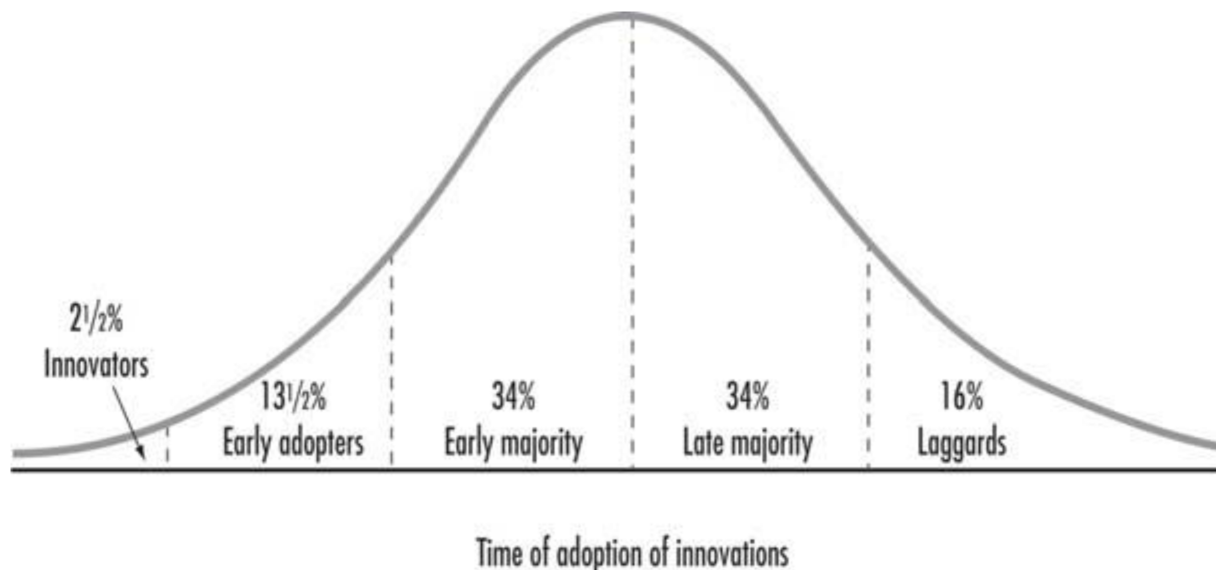
Compatibility - This refers to the product's consistency with the prospects cultural values and lifestyles. This includes the perceived risk (personal and social consequences) of using the product. Like Ready-to-eat chappatis failed in their first introduction because housewives felt using such a product would cause them to be perceived as poor providers for their families. Now, as more women enter the work force, Levers is attempting to re- introduce the product since they believe it lifestyle changes will make the product more acceptable.

Complexity -Complexity means the relative difficulty in understanding or using the product. Highly complex products like microwave ovens and home computers take a long time to diffuse.

Divisibility - Divisibility is the degree to which the product can be used on a trial basis. Free samples and small-sized introductory packages are often used for products like cosmetics, household cleaners and razor blades to induce adoption.

Communicability - This is the degree to which product results can be observed by others or described to them. The greater the communicability, the faster the adoption rate because people will give it word--of-mouth publicity. Examples include cosmetics, coaching classes, bank services and restaurants.

Lets now move on to what is Diffusion Process:-"The diffusion process is the spread of a new product throughout a society"



Time of adoption of innovations

Notice the five categories of adopters (1) Innovators (2) Early adopters, (3) Early majority (4) Late majority and (5) Laggards.

A new product that has been adopted by innovators and early adopters still has 84% of its potential customers in the ton-adopter category. But if innovators and early adopters do not adopt, the product is doomed D failure.

The basic difference that you will find between all the categories is because of behavior seem to be more related to **social class, income levels** and **status positions in reference groups** than to individual personality differences. These characteristics seem to be **more related to the degree of risk taking or lack of it,** in buying decision. A person may be an innovator for one product and a laggard for another.

There would be few amongst us who are **habitual risk takers.** They always try new ideas, experiences and Products. Others are consistently' cautious. Such people however would represent only a small portion of those considered to be innovators or laggards for anyone new product. It is likely that social class and cultural differences between innovators and laggards will exist because they affect people's contact with each other and how quickly they will be exposed to new products. five categories of adopters:

Innovators - well-informed risk-takers who are willing to try an unproven product. Innovators represent the first 2.5% to adopt the product.

Early adopters - based on the positive response of innovators, early adopters then begin to purchase the product. Early adopters tend to be educated opinion leaders and represent about 13.5% of consumers.

Early majority – they are people who are careful consumers who tend to avoid risk, the early majority adopts the product once it has been proven by the early adopters. They rely on recommendations from others who have experience with the product. The early majority represents 34% of consumers.

Late majority - somewhat skeptical consumers who acquire a product only after it has become commonplace. The late majority represents about 34% of consumers.

Laggards - those who avoid change and may not adopt a new product until traditional alternatives no longer are available. Laggards represent about 16% of consumers.

In our discussion we will be using this term consumer for both individual and organization. The rate of adoption depends on many factors, including:

- Perceived benefits over alternative products
- Communicability of the product benefits
- Price and ongoing costs
- Ease of use
- Promotional effort
- Distribution intensity
- Perceived risk
- Compatibility with existing standards and values
- Divisibility (the extent to which a new product can be tested on a limited basis)

Even if a product offers high value to the customer, the firm nonetheless faces the challenge of convincing potential customers to try the product and eventually to adopt it. The product diffusion curve is partly responsible for the product life cycle, which calls for different management strategies that depend on the product's stage in the life cycle.

Finally lets discuss new product development process for this lesson. Lets not forget that there are lot many strategies involved when you want to development a new product. It is basically because of the rapid changes in the consumer preferences, technology and competition, companies need to develop new products and services continuously. This can be done either through *acquisition* or *new product development*. Acquisition means buying out the product developed by someone else. Do you know many large companies have saved crores of rupees by doing this? Others have simply copied competitor's brands or revived new brands. When I am saying new products I mean to say originalproducts, product improvements, product modifications, and new brands that the firm develops through its own research efforts.

But at times innovation can be very risky. A good example of it is Kinetic Engineering it lost crores on its Kinetic Merlin TV, Lever's lost crores on it's failed brand of soap Lux Supreme, as did Ponds with it's Dream flower brand extension to soaps. Other costly product failures include New Coke (Coca Cola Company). New products fail at very high rates. One recent study estimated that new consumer packaged goods (consisting mostly of line extensions) fail at a rate of over 80%.

Why do so many new products fail?

The reasons are many. Although an idea may be good. The market size may have been overestimated, or the product may not have been well designed, or maybe it was incorrectly positioned, priced too high or advertised poorly. A group of executives may push an idea that they believe in strongly without doing sufficient research, or, sometimes, the competitor may give a tougher than usual fight.

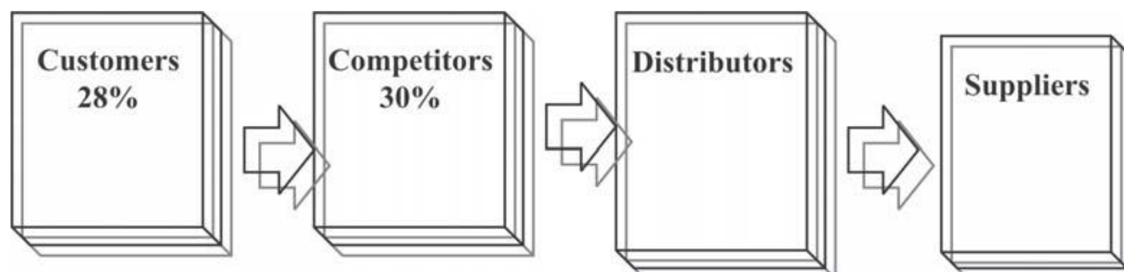
The number one **success factor for** new products is a *unique, superior product.* Such products succeed 98% of the time compared to products with a moderate advantage (58%) or minimal advantage (18%).

Another key success factor is a *well-defined product concept prior to development,* in which the company carefully assesses the target market, the product requirements, and the benefits to the consumer and itself before proceeding. Successful new product development is going to become increasingly tough as stiff competition leads to increasing market fragmentation. - Companies now must aim for smaller segments and this means smaller sales and profits for each product. The costs of finding, developing, and launching, new products will rise steadily due to rising manufacturing, media and distribution costs.

Even when the product is successful, rivals are quick are so quick to copy it that the new product typically has a short life. You can't develop new product successful until and unless total company effort are their with you. The most successful innovating companies make a constant commitment of resources to new product development, design a strategy that is linked to their strategic planning process, and set up formal and sophisticated organizational structures for managing the process.

2.2.6 New Product Development Process

The steps involved in the New Product Development process consists of eight major steps **New Product Development Process -** Figure will show the complete process of new product development lets discuss them one by one.



New Product Development starts with idea generation – in this you are basically involved in the systematic search for new product Ideas. A company has to generate many ideas in order to find one that is worth pursuing. The Major sources of new product ideas include internal sources, customers, competitors, distributors and suppliers. Almost 55% of all new product ideas come from internal sources according to one study. Companies like 3M and Toyota have put in special incentive programs or their employees to come up with workable ideas.

Almost 28% of new product ideas come from watching and listening to customers. Customers: even create new products on their own, and companies can benefit by finding these products and putting them on the market About 30% of new product ideas come from analysis of competitors' products. The company can watch competitors' ads, press releases and write-ups in the press about their activities. Companies also buy competitors information and pay for industrial espionage.

Resellers and others who are close to the market, can often pass on information about new developments. Other sources are trade magazines, shows and seminars, market research firms, government reports, advertising agencies and new product consultants.

Idea Screening: -The purpose of idea generation is to create a large pool of ideas. The purpose of this stage is to pare these down to those that are genuinely worth pursuing. Companies have different methods for doing this from product review committees to formal market research. It, is helpful at this stage to have a checklist that can be used to rate each idea based on the factors required for successfully launching the product in the marketplace and their relative importance. Against these, management can assess how well the idea fits with the company's marketing skills and experience and other capabilities. Finally, the management can obtain an overall rating of the company's ability to launch the product successfully.

Concept Development and Testing - An attractive idea has to be developed into a Product concept. As opposed to a product idea that is an idea for a product that the company can see itself marketing to customers, a product concept is a detailed version of the idea stated in meaningful consumer terms. This is different again from a product image, which is the consumers' perception of an actual or potential product. Once the concepts are developed, these need to be tested with consumers either symbolically or physically. For some concept tests, a word or a picture may be sufficient, however, a physical presentation will increase the reliability of the concept test. After being exposed to the concept, consumers are asked to respond to it by answering a set of questions designed to help the

company decide which concept has the strongest appeal. The company can then project these findings to the full market to estimate sales volume.

Marketing Strategy Development - This is the next step in new product development. The strategy statement consists of three parts: the first part describes the target market, the planned product positioning and the sales, market share and profit goals for the first few years. The second part outlines the product's planned price, distribution, and marketing budget for the first year. The third part of the marketing strategy statement describes the planned long-run sales, profit goals, and the marketing mix strategy.

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

Product Development - Here, R&D or engineering develops the product concept into a physical product. This step calls for a large investment. It will show whether the product idea can be developed into a full- fledged workable product. First, R&D will develop prototypes that will satisfy and excite customers and that can be produced quickly and at budgeted costs. When the prototypes are ready, they must be tested. Functional tests are then conducted under laboratory and field conditions to ascertain whether the product performs safely and effectively.

Test Marketing - If the product passes the functional tests, the next step is test marketing: the stage at which the product and the marketing program are introduced to a more realistic market settings. Test marketing gives the marketer an opportunity to tweak the marketing mix before the going into the expense of a product launch. The amount of test marketing varies with the type of product. Costs of test marketing can be enormous and it can also allow competitors to launch a "me too" product or even sabotage the testing so that the marketer gets skewed results. Hence, at times, management may decide to do away with this stage and proceed straight to the next one.

Self-Exercise

Q1) Using a name brand coffee as an example, describe how that product fits into each of the five levels of a product.

Q2) Describe the desirable qualities a brand name should have and give an example of a product currently on the market that fits that description.

Q3) Describe five reasons why a new product fails once it is released in a market.

Q 4) You have developed a new type of office furniture. Using the stages in the Adoption Process, describe how your customers would move through the stages.

BBA PART-II — **PAPER – BBA : 303**

SEMESTER-III — **PRINCIPLES OF MARKETING MANAGEMENT**

LESSON NO. 2.3 — **AUTHOR : Dr. APAR SINGH**

Pricing Decisions

Lesson Structure

2.3.1 Introduction

2.3.2. Definition of Price

2.3.3 Setting the Price

2.3.4 Setting Its Pricing Policy

2.3.5 Various Pricing Methods

2.3.6 Factors to Consider When Setting Prices

2.3.7 Initiating Price Changes

2.3.8 Reactions to Price Changes

2.3.9 Responding to Competitor's Price Changes

2.3.10 Different Pricing Strategies

2.3.1 Introduction

Prices are generally expressed in units of some form of currency and are expressed per unit weight of the commodity. Although prices could be quoted as quantities of other goods or services, this sort of barter exchange is rarely seen. Price is first of the components of marketing mix. As you know that all profit organizations and many non-profit organizations must set prices on their products and services. You will agree that price remains a critical element of the marketing mix, despite the increased role of non-price factors in modern marketing. Price is the one element of marketing mix that produces revenue; the other elements produce costs. You would understand that the organizations are concerned with various issues or decision areas regarding pricing such as – adapting and responding to

competitor(s) pricing strategies, pricing new products, pricing across various distribution channels etc.

Companies are wrestling with a number of difficult pricing Tasks such as

- How to respond to aggressive price cutters
- How to price the same product when it goes through different channels.
- How to price the same product in different countries
- How to price an improved product while still selling the previous version

2.3.2. Definition of price

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

PRICE- The amt of money charged for a product or service, or the sum of the values that consumers exchange for the benefits of having or using the product or service.“One can define price as that which people have to forego in order to acquire a product or service.”

What does a buyer think ? To a buyer, price is the value placed on what is exchanged. Something of value -usually purchasing power - is exchanged for satisfaction or utility. Purchasing power depends on a buyer’s income, credit, and wealth.

Price is not always money or some other financial consideration.

Buyers’ concern about price is related to their expectations about the satisfaction or utility associated with a product. Buyers must decide whether the utility gained in an exchange is worth the purchasing power sacrificed. Different terms can be used to describe price for different forms of exchange, (rent, premium, toll, retainer, fee, interest, etc.).

Historically, price has been the major factor affecting buyer choice. This is still true in poorer nations, among poorer groups and with commodity products. However, non-price factors have become more important in buyer-choice behavior in recent decades. Price is also one of the most flexible elements of the marketing mix. Unlike product features and channel commitments, price can be changed very quickly. At the same time, pricing and price competition is the number-one problem facing many marketers. Mr. J. Walker, “Price is equal to the total product offering."

2.3.3 SETTING THE PRICE

The process of coming up with a cost to consumers of a good or service produced by a business-marketing managers often influence the price setting process for goods and services that they help promote although the price level of a product is typically set based on its production and distribution costs, as well as the value of product. A firm must set a price for the first time when it develops a new product, when it introduces its regular product into a new distribution channel or geographical area, and when it enter bids on new contract work.

Is Setting prices easy ?. It involves making a number of guesses about the future. You would want to Know how , an organization should proceed as follows:

Identify the target market segment for the product or service, and decide what share of it is desired and how quickly.

Establish the price range that would be acceptable to occupants of this segment. If this looks unpromising, it is still possible that consumers might be educated to accept higher price levels, though this may take time.

Examine the prices (and costs if possible) of potential or actual competitors. Examine the range of possible prices within different combinations of the marketing mix (e.g. different levels of product quality or distribution methods).

Determine whether the product can be sold profitably at each price based upon anticipated sales levels (i.e. by calculating break-even point) and if so, whether these profits will meet strategic objectives for profitability.

If only a modest profit is expected it may be below the threshold figure demanded by an organization for all its activities. In these circumstances, it may be necessary to modify product specifications downwards until costs are reduced sufficiently to produce the desired profit.

Anticipate the likely reaction of competitors (actual or potential).

2.3.4 setting its pricing policy

According to Kotler an organization goes through the following steps in setting its pricing policy: -

The steps are

Selecting the pricing Objective

Determining the demand

Estimating Costs

Analyzing competitor's costs, prices and offers

Selecting a pricing method

Selecting the final Price

1) Selecting the pricing Objective - *You would agree that the foremost step is identifying pricing*

objectives.

The company first decides where it wants to position its marketing offering. The clearer a firm's objectives, the easier it is to set price. *What are pricing objectives ?* A company can pursue any of five major objectives through pricing: survival, maximum current profit, maximum market share, maximum market skimming, or product-quality leadership.

Companies pursue *survival,* as their major objective if they are plagued with overcapacity intense competition, or changing consumer wants. As long as prices cover variable costs and some fixed costs, the company stays in business. Survival is a short-run objective: in the long run, the firm must learn how to add value or face extinction.

What happens when companies wants to maximize profit ? Many companies try to set a price that will *maximize current profits*. They estimate the demand and costs associated with alternative prices and choose the price that produces maximum current profit, cash flow or rate of return on investment. This strategy assumes that the firm has knowledge of its demand and cost functions; in reality these are difficult to estimate.

Some companies want to *maximize their market share*. They believe that a higher sales volume will lead to lower unit costs and higher long-run profit. They set the lowest price, assuming the market is price sensitive. The following conditions favor setting a low price The market is highly price sensitive, and a low price stimulates market growth. Production and distribution costs fall with accumulated production experience; A low price discourages actual and potential competition Companies unveiling a new technology favor setting high prices to "skim" the market. Sony is a frequent practitioner of market skimming pricing. Whatever the specific objective, businesses that use price as a strategic tool will profit more than those who simply let costs or the market determine their pricing

2. Determining the demand - *Following the identification of objectives , the firm needs to determine demand*. Each price will lead to a different level of demand and therefore have a different impact on a company's marketing objectives. In the normal case, demand and price are inversely related: the higher the price, the lower the demand .In the case of prestige goods, the demand curve sometimes slopes upward. E.g. Perfume Company raised its price and sold more perfume rather than less! Some consumers take the higher price to signify a better product. However if the price is too high, the level of demand may fall.

Do you agree that generally speaking customers are most price-sensitive to products that cost a lot or are bought frequently? . They are less price-sensitive to low –cost items or items they buy infrequently. They are also less price-sensitive when price is only a small part of the total cost of obtaining, operating and servicing the product over its lifetime. A seller can charge a higher price than competitors and still get the business if the company can convince the customer that it offers the lowest total cost of ownership (TCO).

The process of estimating demand therefore leads to

i. Estimating Price sensitivity of market

ii. Estimating and analyzing demand curve

iii. Determining price elasticity of demand.

3. Estimating Costs - Demand sets a ceiling on the price the company can charge for its product. *Can you discuss this statement in detail ?* Costs set the floor. The company wants to charge a price that covers its cost of producing, distribution and selling the product, including a fair return forits effort and risk.

Do you know different costs of organization ? How are these costs related with pricing ?A company's cost take two forms, *fixed* and *variable*. Fixed costs (also known as overhead) are costs that do not vary with production or sales revenue. A company must pay bills each month for rent heat, interest, salaries and so on. , Regardless of output. Variable costs vary directly with the level of production. These costs tend to be constant per unit produced. They are called variable because their total varies with the number of units produced. Total costs consists have the sum of the fixed and variable costs for any given level of production. Average cost is the cost per unit at the level of production; it is equal to total costs divided by production.

To price intelligently, management needs to know how its costs vary with different levels of production.

4. Analyzing competitor's costs, prices and offers - *You would agree that analyzing competitor's costs, prices and offers is also important factor in setting prices*. Within the range of possible prices determined by market demand and company costs, the firm must take the competitor's costs, prices and possible price reactions into account. While demand sets a ceiling and costs set a floor to pricing, competitors' prices provide an in between point you must consider in setting prices. Learn the price and quality of each competitor's product or service by sending out comparison shoppers to price and compare. Acquire competitors' price lists and buy competitors' products and analyze them. Also ask customers how they perceive the price and quality of each competitor's product or service. If your product or service is similar to a major competitor's product or service, then you will have to price close to the competitor or lose sales. If your product or service is inferior, you will not be able to charge as much as the competitor. Be aware that competitors might even change their prices in response to your price.

5. Selecting a pricing method - Do you Know any pricing methods ? As consumers have you been able to distinguish between pricing strategies ? Let us have a look at various pricing methods.

2.3.5 VARIOUS PRICING METHODS

There are three pricing methods that can be employed by a firm:

1. Cost Oriented Pricing
2. Competitor Oriented Pricing
3. Marketing Oriented Pricing

Cost Oriented Pricing - Companies often use cost oriented pricing methods when setting prices. Two methods are normally used

Full cost pricing –

Here the firm determines the direct and fixed costs for each unit of product. The first problem with Full-cost pricing is that it leads to an increase in price as sales fall. The process is illogical also because to arrive at a cost per unit the firm must anticipate how many products they are going to sell. The is an almost impossible prediction. This method focuses upon the internal costs of the firm as opposed to the prospective customers' willingness to pay.

Direct (or marginal) Cost Pricing –

This involves the calculation of only those costs, which are likely to increase as output increases. Indirect or fixed costs (plant, machinery etc) will remain unaffected whether one unit or one thousand units are produced. Like full cost pricing, this method will include a profit margin in the final price. Direct cost approach is useful when pricing services for example. Consider aircraft seats; if they are unused on a flight then the revenue is lost. These remaining seats may be offered at a discount so that some contribution is made to the flight expenses. The risk here is that other customers who paid the full price may find out about the discounted offer and complain. Direct costs then, indicate the lowest price at which it is sensible to take business if the alternative is to let machinery, aircraft seats or hotel rooms lie idle.

Competition-based approach - *Going-Rate Pricing*

In going-rate pricing, the firm bases its price largely on competitors' prices, with less attention paid to its own costs or to demand. The firm might charge the same, more, or less than its major competitors. Where the products offered by firms in a certain industry are very similar the public often finds difficulty in perceiving which firm meets there needs best. In cases like this (for example in financial services and delivery services) the firm may attempt to differentiate on delivery or service quality in an attempt to justify a higher selling price.

Competitive Bidding - Many contracts are won or lost on the basis of competitive bidding. The most usual process is the drawing up of detailed specifications for a product and putting the contract out for tender. Potential suppliers quote a price, which is confidential to themselves and the buyer. In sealed-bid pricing (i.e. only known to client and not to the other parties tendering for the service), firms bid for jobs, with the firms basing the price on what it thinks other firms will be bidding rather than on its own costs or demand. All other things being equal the buyer will select the supplier that offers the lowest price.

Marketing Oriented Pricing - The price of a product should be set in line with the marketing strategy. The danger is that if price is viewed in isolation (as would be the case with full cost pricing) with no reference to other marketing decisions such as positioning, strategic objectives, promotion, distribution and product benefits. The way around this problem is to recognize that the pricing decision is dependent on other earlier decisions in the marketing planning process. For new

products, price will depend upon positioning, strategy, and for existing products price will be affected by strategic objectives.

6. Selecting the final Price - Pricing methods narrow the range from which the company must select its final price. In selecting that price, the company must consider additional factors, including psychological pricing, gain and risk pricing, the influence of other marketing –mix elements on price, company –pricing policies, and the impact of price on other parties. Have a brief look at the factors affecting pricing strategy :-

2.3.6 FACTORS TO CONSIDER WHEN SETTING PRICES*

Internal Factors

Marketing Objectives

Marketing mix strategy

Costs

Organizational considerations

External Factors

Nature of market and demand

Competition

Environment factors

2.3.7 INITIATING PRICE CHANGES - *companies often face situations where they may need to cut or raise prices*. The key issues associated with initiating price changes are the circumstances that may lead a company to raise or lower prices, the tactics that can be used, and estimating competitor reactions. The options available to the organization for making changes in prices would generally include the following: -

Maintain price and perceived quality; selectively prune customers

Raise price and perceived quality

Partially cut price and raise quality

Fully cut price, maintain perceived quality

Maintain price, reduce perceived quality

Introduce an economy model

Initiating price cuts

Why do firms initiate price cuts :-

Several circumstances lead a firm to cut prices. Such as the following: -

1. Excess plant capacity (or excess production, therefore a need to push sales)
2. Declining market share (to give a boost to its sagging sales)
3. Attempt to dominate the market via lower costs

Either the company starts with lower costs than its competitors or it initiates price cuts in the hope of gaining market share and lower costs; but a price-cutting strategy involves possible traps: -

Price cutting traps:

Price cutting could also be tricky , or could lead to what we commonly refer as price cutting traps. Low-Quality trap (Price/quality perceptions)

Fragile-market-share trap (Low prices don't create market loyalty)

Shallow –pocket trap (Competition may match or beat price cuts)

Initiating price increases

Like price cuts , a firm can also initiate to increase the price .....

A successful price increase can raise profits considerably. For example, if the company's profit margin is 3% of sales, a 1% increase will increase profits by 33% if sales volume is unaffected. The circumstances provoking price increases are generally as follows: -

Knowing circumstances leading to price increases:

Cost inflation: A major circumstance provoking price increases is cost inflation. Rising costs unmatched by productivity gains squeeze profit margins and lead companies to regular rounds of price increases. Companies often raise their prices by more than cost increase, in anticipation of further inflation and govt. price controls, in a practice called anticipatory pricing.

Over demand: when a company cannot supply all of its customers, it can raise its prices, ration supplies to its customers, or both. The price can be increased in the following ways:

***Methods of dealing with over demand*:**

Delayed quotation pricing: The company does not set a final price until the product is finished or delivered. This pricing is prevalent in industries with long production lead times, such as industrial construction and heavy equipment.

Escalator clauses: The company requires paying today's price and all or part of any inflation increase that takes place before delivery. An escalator clause bases price increases on some specified price index. Escalator clauses are found in contracts for major industrial projects, like aircraft construction and bridge building.

Unbundling: The Company maintains its price but removes or prices separately one or more elements that were part of the former offer, such as free delivery or installation.

Reduction of discounts: The company instructs its sales force not to offer its normal cash and quantity discounts.

2.3.8 REACTIONS TO PRICE CHANGES

Any price change can provoke a response from customers, competitors, distributors, suppliers and even government.

Customer reactions - *How do you think customers react ? How do you react when the price of you r favorite perfume goes up ? Will you stop using it ?*

Customers often question the motivation behind price changes. A price cut can be interpreted in different ways: the item is about to be replaced by a new model; the item is faulty and not selling well; the firm is in financial trouble; the price will come down even further, the quality has been reduced.

A price increase, which would normally deter sales, may carry some positive meaning to customers .The item is "hot" and represents an unusually good value

Competitor's reactions

Will the competitors sit quiet ?

A company thinking of changing its prices must also consider how it's competitors is likely to react.

Such reactions are especially important where:

There are few firms in the market and your own share is relatively large;

The product/services are relatively homogenous;

Complex strategy models can be developed to try to estimate how competitors are likely to react to price changes under different circumstances. Broadly speaking, the approaches are either statistical or conjectural. The statistical approach analyses how competitors have responded in the past on the assumption that they have a consistent price reaction policy. Unfortunately the problem with this is that firms do not always react logically.

The conjectural approach, on the other hand, amounts to putting yourself in your competitor's shoes and estimating how you would react in the circumstances. To do this you need to find out as much about each of your competitors as possible. Are they pursuing a market share objective? If so they may well decide to match your price change. On the other hand, if they are trying to maximize profits, they may well respond to a price reduction by taking action on another front such as spending more on advertising or improving product quality.

How much profit are your competitors making? If you don't know then you should try to find out. You will then be in a much better position to judge how any price change will affect their profitability and how much freedom of action they actually have. Knowing whether or not your competitors can afford to enter a price war is something you should try to find out before you start one- not afterwards.

2.3.9 RESPONDING TO COMPETITOR'S PRICE CHANGES

We have looked at the possible effects of initiating price changes - let us now consider the opposite question. How should we react to price changes made by competitors?

A key factor in the price change decision is the extent of competitor reaction. Effective environmental scanning and competitor shopping are ways that a firm can keep close to what their competitor offerings to the market are. This closeness brings with it both formal and informal intelligence that will give the firm a clear idea of the strategic objectives of the competitor in question. However, another important consideration before reacting to competitor price changes is to fully understand the positioning of the product in the mind of the consumer When competitors initiate price changes, companies need to analyze their appropriate reactions **When to Follow -** Competitor price increases are likely to be followed when they are due to general rising cost levels or industry wide excess demand. Initially the pressure is similar on all market players. Another factor is where the product in question is price insensitive which means that the follower will not gain much advantage by resisting the price increase (egg cigarettes). Price cuts are likely to be followed in price sensitive markets (egg groceries) or perhaps where they are

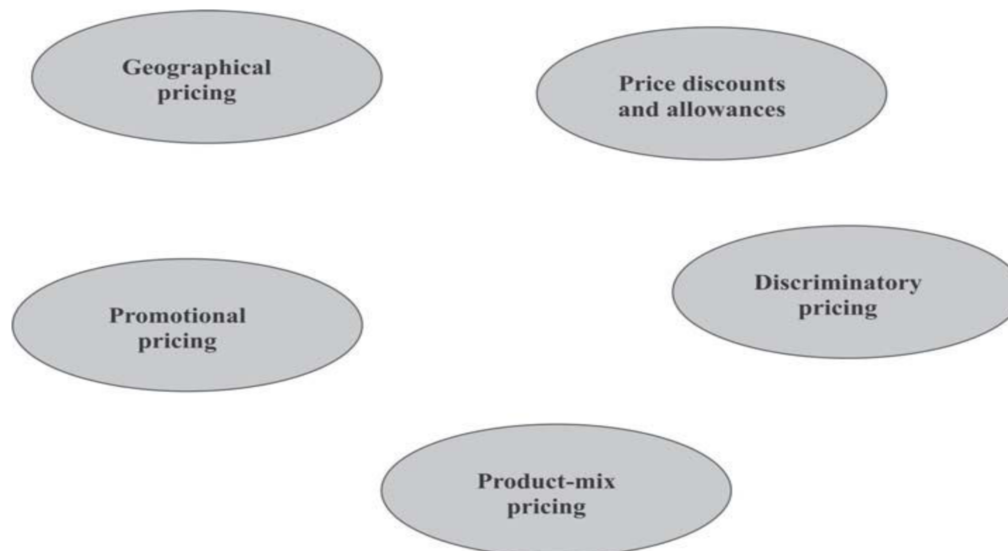
stimulated by excess supply (e.g. T-Shirts in a wet summer). However care must be taken here, as mentioned above, the price movement must be consistent with the image of the company and the positioning of the products.

When to Ignore - Opposite of the above; stable costs, excess supply, price insensitivity, a grow market share objective. However care must be taken here, as mentioned above, as the price movement must be consistent with the image of the company and the positioning of the products.

In some situations - in markets with near perfect competition and homogenous products - you may have little choice but to match a competitor's price cut. Not to do so would probably mean losing most if not all of your sales. If on the other hand the competitor increases his price you must choose between fully or partly matching the rise and making no change at all. In doing this you must judge how the market as a whole is likely to react, as well as estimating the subsequent response of your competitors to your own actions. A refusal to increase your price may make the competitors reverse the original increase, so that an opportunity to raise overall profit margins may be lost.

In markets with on-homogenous products, you have more freedom in deciding how to respond to a price change. Since price may be only one factor - albeit an important one - in determining buyer behaviors, you may decide to change other elements of the marketing mix, for example, by concentrating more on advertising, improving product quality or deliveries. The best approach is to consider the expected pay-off from adopting different responses.

2.3.10 DIFFERENT PRICING STRATEGIES



1. Geographical pricing (cash. Counter trade. Barter) - Geographical pricing involves the' company in deciding how to price its products to different. Customers in different locations and countries. For example, should the company charge higher prices to distant customers to cover the higher shipping costs or a lower price to win additional business? Another issue is how to get paid.

This issue is critical when buyers lack sufficient hard currency to pay for their purchases. Many buyers want to offer other items in payment, a practice known as counter trade. American companies are often forced _o engage in counter trade if they want the business. Counter trade may account for 15 to 25 percent of world trade and takes several forms: barter, compensation deals, buyback agreements, and offset.

 Barter: The direct exchange of goods, with no money and no third party involved

 Compensation deal: The seller receives some percentage of the payment in cash and the rest in products. A British aircraft manufacturer sold planes to Brazil for 70 percent cash and the rest in coffee.

 Buyback arrangement: The seller sells a plant, equipment, or technology to another country and agrees to accept as partial payment products manufactured with the supplied equipment. A US. Chemical company built a plant *for* an Indian

company and accepted partial payment in cash and the remainder in chemicals manufactured at the plant.

 Offset: The seller receives full payment in cash but agrees to spend a substantial amount of the money in that country within a stated time period. For example, PepsiCo sells its cola *syrup* to Russia *for* rubles and agrees to buy Russian vodka at a certain rate for sale in the United States.

2. Price discounts and allowances - The role of discount Offering discounts can be a useful tactic in response to aggressive competition by a competitor. However, discounting can be dangerous unless carefully controlled and conceived as part of your overall marketing strategy.

Discounting is common in many industries - in some it is so endemic as to render normal price lists practically meaningless. This is not to say that there is anything particularly wrong with price discounting provided that you are getting something specific that you want in return. The trouble is that, all too often, companies get themselves embroiled in a complex structure of cash, quantity and other discounts, whilst getting absolutely nothing in return except a lower profit margin. Let us look briefly at the main types of discounts common today

Cash and settlement discounts **-** These are intended to bring payments in faster. However, since such discounts need to be at least 2,5% per month to have any real effect, this means paying your customer an annual rate of interest of 30% just to get in money which is due to you anyway. What is more, customers frequently take all the discounts on offer and still do not pay promptly, so that you lose both ways. Much better, we believe, is either to eliminate these discounts altogether and introduce an efficient credit control system, or change your terms of business so that you can impose a surcharge on overdue accounts instead. Whilst you may lose some business by doing this, these will probably be the worst payers anyway. If some customers will not pay you for months you are probably better off trying to win others who will

Quantity discounts **-** The trouble with these is that, when formalized on a published price list, they become an established part of your pricing structure and as a result their impact can be lost. If you are not very careful, although they may have helped you win the business to start with, in the long run the only effect they have is to spoil your profit margin. As a general rule, only publish the very minimum of quantity discounts - your very largest customers will probably try to negotiate something extra anyway. Also keep quantity discounts small, so that you

hold something in reserve for when your customers do something extra for you, such as offering you sole supply, or as part of a special promotion.

***Promotional discounts* -** These are the best kind of discounts because they enable you to retain the power to be flexible. There may be times when you want to give an extra boost to sales - to shift an old product before launching an updated one for example. At times like these special offers or promotional discounts can be useful. But try to think of unusual offers - a larger pack size for the same price or a " five for the p [rice of four " can often stimulate more interest than a straight percentage discount. They also make sure that the end user gets at least some of the benefit, which doesn't always happen with other types of discounts. Two other points to remember are

Make sure you retain control over your special promotions, with a specific objective, a beginning and an end point. Be sure to terminate them once they have outlived their usefulness.

Ensure that your offers are linked to sales and not simply to orders. Otherwise you may find that orders to you are up for a while, only to be followed by a barren period whilst your customer supplies the end user from his accumulated stocks.

Clearly the role of discounts will vary from one type of business to another and not all of the comments above will apply to you. In part your ability to minimize discounts, or eliminate them altogether, will depend on the non-price benefits of your product. But, whatever business you are in, you should always ask yourself what your discounts are supposed to achieve, whether they are effective, and how long they are expected to last. In general, keep standard discounts low to retain maximum flexibility and ensure that they are consistent with your overall marketing and pricing strategy.

3. Promotional Pricing - Companies can use several pricing techniques to stimulate early purchase:

Loss-leader pricing: Supermarkets and department stores often drop the price on well-Known brands to stimulate additional store traffic. This pays if the revenue on the additional sales compensates for the lower margins on the) boss-leader items. Manufacturers of loss-leader brands typically *object* because this practice can dilute the brand image and bring complaints from retailers who charge the list price. Manufacturers have tried to restrain intermediaries from loss leader pricingthrough lobbying for retail-price -maintenance laws, but these laws have been revoked.

Special-event pricing: Sellers will establish special prices in certain seasons to draw in more customers.

Cash rebates: Auto companies and other consumer-goods companies offer cash rebates to Encourage purchase of the manufacturers' products within a specified time period. Rebates can help clear inventories without cutting the stated list price.

Low-interest financing: Instead of cutting its price, the company can offer customers low- interest financing. Automakers have even announced no-interest financing to attract Customers.

Longer payment terms: Sellers, especially mortgage banks and auto companies, stretch loans over longer periods and thus lower the monthly payments. Consumers often worry less about the cost (i.e., the interest rate) of a loan and more about whether they can afford the monthly payment.

Warranties and service contracts: Companies can promote sales by adding a free or low- cost warranty or service contract.

Psychological discounting: This strategy involves setting an artificially high price and then offering the product at substantial savings Promotional-pricing strategies are often a zero-sum game. If they work, competitors Copy them and they lose their effectiveness. If they do not work, they waste money that could have been put into other marketing tools, such as building up product quality and service or strengthening product image through advertising.

4. Discriminatory pricing - Companies often adjust their basic price to accommodate differences in customers, products, locations, and so on. Price discrimination occurs when a company sells a product or service at two or more prices that do not reflect a proportional difference in costs. In first degree price discrimination, the seller charges a separate price to each customer depending on the intensity of his or her demand. In second-degree price discrimination, the seller charges less to buyers who buy a larger volume. In third-degree price discrimination, the seller charges different amounts to different classes of buyers, as in the following cases:

Customer-segment pricing: Different customer groups are charged different prices for the same product or service. For example, museums often charge a lower admission fee to students and senior citizens.

Product-form pricing: Different versions of the product ‘are priced differently but not proportionately to their respective costs.

Image pricing: Some companies price the same product two different levels based on image differences. A perfume manufacturer can put the perfume in one bottle, give it a name and image, and price it at Rest. 50. It can put the same perfume in another bottle with a different name and image and price it at Rs.200.

Channel pricing: Coca-Cola carries a different price depending on whether it is purchased ill a fine restaurant, a fast-food restaurant, or a vending machine.

Location pricing: The same product is priced differently at different locations even though the cost of offering at each location is the same. A theater varies its seat prices according to audience preferences for different locations.

Time pricing: Prices are varied by season, day, or hour. Public utilities vary energy rates to commercial users by time of day and weekend versus weekday. Restaurants charge less to “early bird” customers. Hotels charge less’ on weekends. Hotels and airlines use yield pricing, by which they offer lower rates on unsold inventory just before it expires. Coca-Cola considered raising its vending machine soda prices on hot days using wireless technology, and lowering the price on cold days.

However, customers so disliked the idea that Coke abandoned it. For price discrimination to work, certain conditions must exist. First, the market must be segmentable and the segments must show different intensities of demand. Second, members in the lower price segment. Must not be able to resell the product to the higher-price segment. Third, competitors must not be able to undersell the firm in the higher-price segment. Fourth, the cost of segmenting and policing the market must not exceed the extra revenue derived from price discrimination. Fifth, the practice must not breed customer resentment and ill will. Sixth, the particular form of price discrimination must not be illegal.

As a result of deregulation in several industries, competitors have increased their use of discriminatory pricing. Airlines charge different fares to passengers on the same flight, depending on the seating class; the time of day (morning or night coach); the day of the week (workday or weekend); the season; the person’s company, past business, Of status (youth, military, senior citizen); and so on. Airlines are using yield pricing to capture as much revenue as possible.

Computer technology is making it easier for sellers to practice discriminatory pricing. For instance, they can use software that monitors customers’ movements

over the Web and allows them to customize offers and prices. New software applications, how-ever, are also allowing buyers to discriminate between sellers by comparing prices instantaneously.

5. Product-mix pricing - Price-setting logic must be modified when, the product is part of a product mix. In this case, the firm searches for a set of prices that maximizes profits on the total mix. Pricing is difficult because the various products have demand and cost interrelationships and are subject to different degrees of competition. We can distinguish six situations involv-ing product-mix pricing: product-line pricing, optional-feature pricing, captive-product pricing, two-part pricing, by-product

pricing, and product-bundling pricing.

Product line Pricing**:** Companies normally develop product lines rather than single products and introduce price steps. In many lines of trade, sellers use well-established price points for the products in their line. A men's clothing store might carry men's suits at three price levels: Rs800, Rs.1500, andRs.4500. Customers will associate low-, average-, and high-quality suits with the three price points. The seller's task is to establish perceived-quality differences that justify the price differences.

Optional-feature pricing 'Many companies offer optional products, features, and services along with their main product. The automobile buyer can order electric window controls, defoggers, light dimmers, and an extended warranty. Pricing is a sticky problem; automobiles companies must decide which items to include in the price and which to offer as options. Restaurants face a similar pricing problem. Customers can often order liquor in addition to the meal. Many restaurants price their liquor high and their food low. The food revenue covers costs, and the liquor produces the profit. This explains why servers often press hard to get customers to order drinks. Other restaurants price their liquor low and food high to draw in a drinking crowd.

Captive-product pricing - Some products requires the use of ancillary, or captive, products. Manufacturersof razors and cameras often price them low and set high markups on razor blades and film, respectively. A cellular service operator may give a cellular phone free if the person commits to buying two years of phone service.

Two-part pricing - Service firms often engage in two-part pricing, consisting of a fixed fee plus a variable usage fee. Telephone users pay a minimum monthly fee

plus charges for calls beyond the minimum number. Amusement parks charge an admission fee plus fees for rides over a certain minimum. The service firm faces a problem sin1ilar to captive -product pricing-namely, how much to charge for the basic service and how much for the variable usage. The fixed fee should be low enough to induce purchase of the ser-vice; the profit can then be made on the usage fees.

By-product pricing **-** The production of certain goods- meats, petroleum products, and other chemicals— often results in by-products. If the by-products have value to a customer group, they should be priced on their value. Any income earned on the by-products will make it easier for the company to charge a lower price on its main product if competition forces it to do so.

P*roduct-Bundling pricing* **-** Sellers often bundle products and features. Pure bundling occurs when a firm only offers its products as a bundle. In mixed bundling, the seller offers goods both individually and in bundles. When offering a mixed bundle, the seller normally charges less for the bundle than if the items were purchased separately. An auto manufacturer might offer an option package at less than the cost of buying all the options separately. A theater company will price a season subscription at less than the cost of buying all the performances separately. Because customers may not have planned to buy all the components, the savings on the price bundle must be substantial enough to induce them to buy the bundle.

Self-exercise

Q1. What is the six-step procedure in establishing product or service price

Q2. How varying situational considerations influence price

Q3. What are the factors considered in making a price change

Q4. What are various pricing strategies.

BBA PART-II | **PAPER – BBA : 303**

SEMESTER-III | **PRINCIPLES OF MARKETING MANAGEMENT**

LESSON NO. 2.4 | **AUTHOR : Dr. APAR SINGH**

Distribution and Channel Management

Lesson Structure

2.4.1 Introduction

2.4.2 Marketing through channel partners

2.4.2.1 Nature & importance of marketing channels

2.4.3 Channel design decisions

2.4.4 Designing a channel system

2.4.5 Channel strategies

2.4.6 Types of channel intermediaries and their functions

2.4.1 Introduction

Product distribution is one of the 4 elements of the marketing mix. Distribution is the process of making a product or service available for use or consumption by a consumer or business user, using direct means, or using indirect means with intermediaries. Product distribution is one of the four elements of the marketing mix. Distribution is the process of making a product or service available for use or consumption by a consumer or business user, using direct means, or using indirect means with intermediaries.

Distribution is the place element of the marketing mix. Products need to be available in adequate quantities, in convenient locations and at time when customers want to buy them. Producers need to consider not only the needs of their ultimate customer but also the requirement of channel intermediaries, those organisations who facilitate the distribution of products to customers. The choice

of the most effective channel of distribution is an important aspect of marketing strategy.

One can describe distribution as follows **:-** ***A channel of distribution comprises a set of institutions which perform all of the activities utilised to move a product and its title from production to consumption***.

We define a value network as follows: *A value network is a system of partnerships and alliances that a firm creates to source, augment, and deliver its offerings* Marketing channels are sets of interdependent organizations involved in the process of making a product or service available for use or consumption! Marketing-channel decisions are among the most critical decisions facing management. The channels chosen intimately affect all the other marketing decisions. The company's pricing depends on whether it uses mass-merchandisers or high quality boutiques. The firm's sales force and advertising decisions depend on how much training and motivation dealers need. In addition, the company's channel decisions involve relatively long-term commitments to other firms.

When an automaker signs up independent dealers to sell its automobiles, the automaker cannot buy them out the next day and replace them with. Company - owned outlets. Marketers, for their part, have traditionally focused on the side of the value network that looks forward toward the customer. Hopefully, they will increasingly participate in and influence their companies' upstream activities and become network managers, not only product and customer managers. Most producers do not sell their goods directly to the final users; between them stands a set of intermediaries performing a variety of functions. These intermediaries constitute a marketing channel (also called a trade channel or distribution channel). Some intermediaries-such as wholesalers and retailers-buy, take title to, and resell the merchandise; they are called merchants. Others-brokers, manufacturers' representatives, sales agents search for customers and may negotiate on the producer's behalf but do not take title to the goods; they are called agents. Still others-transportation companies, independent warehouses, banks, advertising agencies-assist in the distribution process but neither take title to goods nor negotiate purchases or sales; they are called facilitators.

2.4.2 MARKETING THROUGH CHANNEL PARTNERS the most basic question to ask when deciding channel strategy is whether to sell directly to the ultimate customer, or to use channel intermediaries such as retailers and/or wholesalers.

2.4.2.1 THE NATURE & IMPORTANCE OF MARKETING CHANNELS :

In brief the following highlights the importance of marketing channels :-

 Channel choices affect other decisions in the marketing mix

 Pricing, Marketing communications etc. A strong distribution system can be a competitive advantage Channel decisions involve long-term commitments to other firms More specifically, producer do gain several advantages by using intermediaries: A marketing channel performs the work of moving goods from producers to consumers. It overcomes the time place, and possession gaps that separate goods and ser-vices from those who need or want them.

Members of the marketing channel perform *a* number of key functions:

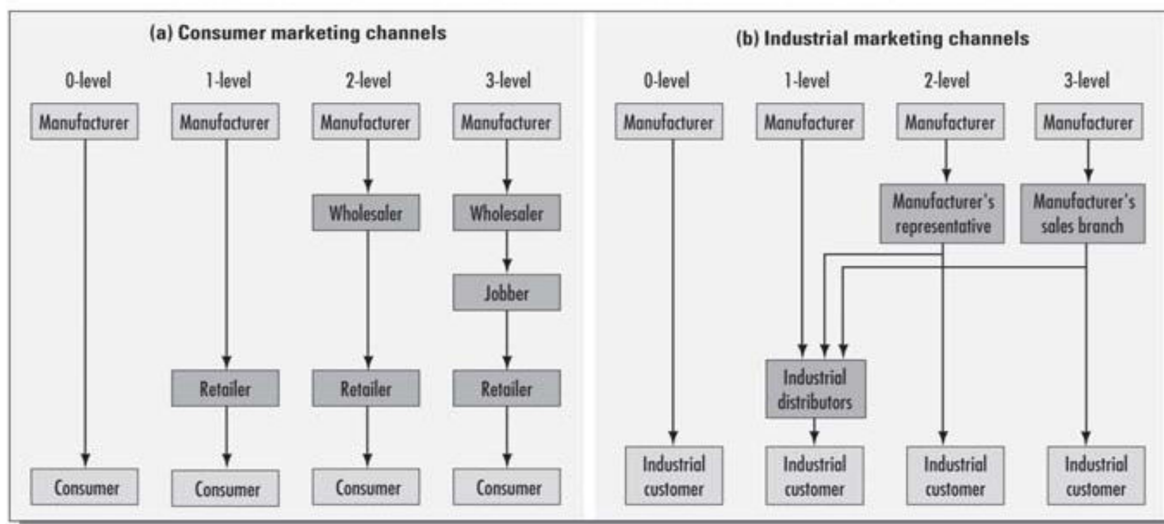
1. They gather information about potential and current customers, competitors, and other actors and forces in the marketing environment.
2. They develop and disseminate persuasive communications to stimulate purchasing.
3. They reach agreements on price and other terms so that transfer of ownership or possession can be effected.
4. They place orders with manufacturers.
5. They acquire the funds to finance inventories at different levels in the marketing channel
6. They assume risks connected with carrying out channel work.
7. They provide for the successive storage and movement of physical products.
8. They provide for buyers' payment of their bills through banks and other financial institutions They oversee actual transfer of ownership from one organization or person to another.

Some functions (physical, title, promotion) constitute a *forward flow* of activity from the company to the customer; other functions (ordering and payment) constitute a *backward flow* from customers to the company. Still others (information, negotiation, finance, and risk taking) occur in both directions. Five flows are illustrated in the above figure for the marketing of forklift trucks. If these flows were superimposed in one diagram, the tremendous complexity of even simple marketing channels would be apparent. A manufacturer selling a physical product and services might require three channels: a *sales channel,* a *delivery channel,* and a *service channel.* The question is not *whether* various channel functions need to be performed-they must be-but rather, *who* is to perform them.

All channel functions have three things in common: They use up scarce resources; they can often be performed better through specialization; and they can be shifted among channel members

When the manufacturer shifts some functions to intermediaries, the producer's costs and prices are lower, but the intermediary must add a charge to cover its work. If the intermediaries are more efficient than' the manufacturer, prices to consumers should be lower. If consumers perform some functions themselves, they should enjoy even lower prices. Marketing functions, then, are more basic than the institutions that perform them at any given time.

: Consumer and Industrial Marketing Channels



The producer and the final customer are part of every channel. We will use the number of intermediary levels to designate the length of a channel. The figure illustrates several consumer-goods marketing channels of different lengths.

A **zero-level channel** (also called a *direct-marketing channel)* consists of a manufacturer selling directly to the final customer. The major examples are door-to-door sales, home par-ties, mail order, telemarketing, TV selling;-Internet selling, arid manufacturer-owned stores- Avon sales representatives sell cosmetics door-to-door; Tupperware representatives sell kitchen goods through home parties;

A **one-level channel** contains one selling intermediary, such as a retailer.

A **two level** channel contains two intermediaries. In consumer markets, these are typically a wholesaler and a retailer

A **three-level channel_** contains three intermediaries e.g., food distribution may involve as many .as six levels , there can be many brokers and agents involved .

From the producer's point of view, obtaining information about end users and exercising control becomes more difficult as the number of channel levels increases. The figure also shows channels commonly used in industrial marketing. An industrial- goods manufacturer can use its sales force to sell directly to industrial customers; or it can sell to industrial distributors, who sell to the industrial customers; or it can sell through manufacturer's representatives or its own sales branches directly to industrial customers, or indirectly to industrial customers through industrial distributors. Zero-, one-, and two -level marketing channels are quite common in industrial marketing channels. Channels normally describe a forward movement of products from source to user.

One can also talk about **reverse-flow channels**.

They are important in the following cases:

(1) to reuse products or containers (such as refillable chemical-carrying drums);

(2) to refurbish . ,products (such as circuit boards or computers) for resale;

(3) to recycle products (such as paper)

(4) to dispose of products and packaging (waste products) Several intermediaries play a role in reverse-flow channels, including manufacturers,' redemption centers, community groups, traditional intermediaries such as soft-drink intermediaries, trash collection specialists, recycling centers, trash-recycling brokers, and central-processing warehousing.

Service sector channels. The concept of marketing channels is not limited to the distribution of physical goods. Producers of services and ideas also face the problem of making their output available and accessible to target populations. Schools develop "educational dissemination systems" and hospitals develop "health-delivery systems." These institutions must figure out _agencies and locations for reaching a population spread out over an area. Hospitals must be located in geographic space to serve the people with complete medical care, and we must build schools close to the children who have to learn. Fire stations must be located to give rapid access to potential conflagrations, and voting booths must be placed so - that people can cast their ballots without expending unreasonable

amounts of time, effort, or money to reach the. polling stations. Many of our states face the problem of locating branch 'campuses to serve a burgeoning and increasingly well educated population. In the cities we must create and locate playgrounds for the children. Many overpopulated countries must assign birth control clinics to reach the people with contraceptive and family planning information. As Internet technology advances,' _service industries such 'as banking, insurance, travel, and stock buying and selling will take place through new channels.

Information highway channels There was a time when information could only be passed from mouth to mouth, or by posters, or by mail. Each information channel was originally designed to carry one type of information. Telephone carried voice, cable networks carried video programming, ATMs carried data.. Today, there is a major drive to expand bandwidth so that these *channels can effectively carry data, voice, video, and text*. The rapid growth of the Internet, extranets, and intranets has created a huge demand for information channel capacity. Copper wires have too limited a bandwidth, so much hope lies in expanding the carrying capacity of fiber and in wireless transmission. These conditions have initiated fresh marketing challenges

2.4.3 CHANNEL DESIGN DECISIONS

A new firm typically starts as a local operation selling in a limited market, using existing intermediaries. The number of intermediaries in any local market is opt to be limited: a few manufacturers' sales agents, a few wholesalers, several established retailers, a few trucking companies, and a few warehouses. Deciding on the best channels might not be a problem. The problem might be to convince the available intermediaries to handle the firm's line. If the firm is successful, it might branch into new markets. It might have to use different channels in different markets. In smaller markets, the firm might sell directly to retailers; in larger markets, it might sell through distributors. In rural areas, it might work with general-goods merchants; in urban areas, with limited-line merchants. In one part of the country, it might grant exclusive franchises; in another, it might sell through all outlets willing to handle the merchandise In managing its intermediaries, the firm must decide how much effort to devote to push vs. pull marketing

- **Push strategy** A push strategy involves the manufacturer using its sales force and trade promotion money to induce intermediaries to carry, promote, and sell the product to end users. Push strategy is appropriate where there is low

brand loyalty in a category, brand choice is made in the store, the product is an impulse item, and product benefits are well understood.

 Pull strategy A pull strategy involves the manufacturer using advertising and promotion to induce consumers to ask intermediaries for the product, thus inducing the intermediaries to order it. Pull strategy _is appropriate when there is high brand loyalty and high involvement in the category, when people perceive differences between brands, and when people choose the brand before they go to the store. Companies in the same industry may differ in their emphasis on push or pull.

There are six basic 'channel' decisions:

1. Do we use direct or indirect channels? (e.g. 'direct' to a consumer, 'indirect' via a wholesaler)
2. Single or multiple channels
3. Cumulative length of the multiple channels
4. Types of intermediary (see later)
5. Number of intermediaries at each level (e.g. how many retailers in Southern Spain).
6. Which companies as intermediaries to avoid 'intra-channel conflict' (i.e. infighting between local distributors)

2.4.4 **Designing a channel system**

Following four steps help design a channel system :-

1. Analyzing customer needs 2. Establishing channel objectives 3. Identifying major channel alternatives 4. Evaluating major channel alternatives

1. Analyze Customers' Desired Service Output Levels *It is imperative for you to understand that in designing the marketing channel, the marketer must understand the service output levels desired by target customers.* Channels produce five service outputs

Lot size : The number of units the channel permits a typical customer to purchase on one occasion, customers normally prefer fast delivery channels

Waiting time : The average time customers of that channel wait for receipt of the goods.

Spatial convenience : The degree to which the marketing channel makes it easy for customers to purchase the product

Product variety: The assortment breadth provided by the-marketing channel. Normally, customers prefer a greater assortment because more choices increase the chance of finding what they need. **Service backup:** The add-on services (credit, delivery, installation, repairs) provided by the channel. The greater the service backup, the greater the work provided by the channel

2. Establish Objectives and Constraints Students ,the next logical step is to establish objectives and constraints .Channel objectives should be stated in terms of targeted service output levels under competitive conditions, channel institutions should arrange their functional tasks to minimize total channel costs with respect to desired levels of service outputs Usually, several market segments that desire differing service output levels can be identified. Effective planning requires determining which market segments to serve and the best channels to use in each case. Channel objectives vary with product characteristics. Why and how they vary ? Can you explain ? Perishable products require more direct marketing. Bulky products, such as building materials, require channels that minimize the shipping distance and the amount of handling. Non standardized products, such as custom-built machinery and specialized business forms, are sold directly by company sales representatives. Products requiring installation or maintenance services,

3. Identify Major Channel Alternatives Companies can choose from a wide variety of channels for reaching customers-from sales forces to agents, distributors, dealers, direct mail, telemarketing, and the Internet. Each channel has unique strengths as well as weaknesses. Sales forces can handle complex products and transactions, but they are expensive. The Internet is much less expensive, but it cannot handle complex products. Distributors can create sales, but the company loses direct contact with customers. The problem is further complicated by the fact that most companies now use a mix of channels. Each channel hopefully reaches a different segment of buyers and delivers the right products to each at the least cost. When this does not happen, there is usually channel conflict and excessive cost.

A channel alternative is described by three elements

i. the types of available business intermediaries,

ii. the number of intermediaries needed, and Exclusive distribution Exclusive dealing Selective distribution Intensive distribution

iii. the terms and responsibilities of each channel member. Price policy Conditions of sale Distributors' territorial rights

4. Evaluate the Major Alternatives (time, cost, image parameters particularly)

 Economic criteria—sales versus costs

 Control and adaptive criteria—degree of intermediary Commitment

2.4.5 Channel Strategies

Manufacturers can profit from new developments in channel marketing with three interrelated strategies.

1. Understand the End-Customer's Buying Process Too many manufacturers remain insulated from customers by channel relationships. Reaching all but the largest customers requires manufacturers to cede responsibility for sales and fulfillment to distributors and other intermediaries. Management at industrial and technology companies further heightens their isolation from the marketplace by devoting their energies to designing top-quality products without regard to the process by which customers purchase and use the product. Manufacturers must understand their end-user's current and future purchasing priorities in order to generate market share gains from new technologies. What's more, e-business and channel investments will be squandered and unproductive without a clear understanding of what end customers require from the buying process – beyond a first-rate product. Consider the changes in business procurement.

During the past 10 years, business customers have focused on improving efficiencies in their inbound supply chain by consolidating supply contracts, implementing integrated supply agreements, installing e-procurement systems, experimenting with reverse auctions, and rationalising vendors. To respond, manufacturers must identify the winning channels and partner with them to retain access to customers. The winner might be a distribution intermediary with sophisticated transactional services, such as electronic data interchange and e-procurement support. Or the winner could be an integrated e-procurement vendor who controls access to customers. The key to picking the winners comes from truly understanding the way in which end-customers procure your products. For

example, customers in business-to-business channels face enormous organisational costs for procurement, purchasing and inventory maintenance.

A distributor or channel that lowers a customer's total cost of acquisition is generally preferred over one that simply offers a lower price. The successful evolution and transformation of a go-to-market channel occurs in response to changes in the requirements of customers. By developing early partnerships with the best channel in the eyes of end-customers, manufacturers can better leverage their resources and meet the needs of more powerful and demanding customers. Manufacturers need to under-stand how end-user customers buy and want - not just which products they buy or who they are. This requires research and insight about the "how" of product selection, not simply the "what" decision. Products are a means to an end in the eyes of a buyer. Product satisfaction surveys and feature/function market research miss the behavioral trends that provide clues to the evolving channel.

2. Restructure the Economics of Your Channel Partners E-business is unbundling channel activities by giving customers lower cost, higher service alternatives to the sub-components of traditional go-to market. Unbundling requires new approaches to channel compensation. For example, the Internet overcomes traditional cost limitations of geography, time, or number of customers, giving manufacturers an affordable way to take greater control over the information (not product) flow to the customer. This represents a shift from the era when smaller customers would rely more heavily on a local sales rep to get technical and business help. These developments create an opportunity for manufacturers to redefine traditional channel economics because the value of a distributor's sales force is reduced in the eyes of customers. The challenges to traditional channels are not online exchanges or direct-buy strategies. Instead, our research shows that e-business squeezes channel profits as some, but not all, functions are shifted away from the traditional channel. Either overhead shrinks or distributors must find other ways to justify their gross margin. When this transition has occurred in channels such as pharmaceuticals or automobiles, channel margins drop since the intermediary is adding less value.

Research shows that business customers are reluctant to migrate their entire purchasing process to a direct on-line relationship if it means sacrificing local service, technical support, or complex fulfillment requirements. Manufacturers can manage the fragmenting roles of their traditional channel using functional discounts programs. In a functional discount program, distributors are

compensated so that payments (discount off list) are tied to the actual activities being performed by the channel. Customers, not manufacturers, are best positioned to determine the value provided by their channel. That's another reason that deep insight about end customer behavior becomes invaluable to implementing an e-business strategy.

3. Lead from the Top Manufacturers stand at the top of the supply chain and can use a variety of sales, marketing, and physical distribution systems to connect their products with customers. Therefore, they are well positioned to evaluate the business needs of their distribution channel partners before implementing new technologies and programs. Technology link-ages in the channel must benefit customers as well as demonstrate a clear return on investment for distributors and dealers. Leadership begins by knowing your channel partners and assessing their competencies and performance. Yet we frequently encounter industrial manufacturers with e-business and channel management initiatives but without formal distributor evaluation programs. Evaluations should be conducted yearly and include both quantitative and qualitative assessments.

Quantitative measures can include the distributor's purchase patterns, pricing abilities, and market share. Qualitative assessment can include the strength of the distributor's management, the effectiveness of their growth plans, and overall customer experience they offer. Here are a few specific questions to begin a qualitative evaluation of e-business with a channel partner: What plans do you have for upgrading your technology systems?" Establishing and maintaining technology is costly. Many smaller distributors do not have the available capital to make the needed investments in technology or to build private exchanges for their manufacturers. For others, the initial investment, along with the integration and ongoing maintenance, negates the benefits of communicating electronically with suppliers. *How will we work together to avoid disappointing customers"? A customer will expect a seamless experience when interacting with systems that link distributors and manufacturers.

This interaction raises the stakes, because customer management and inventory systems must be seamlessly integrated across the channel. This complexity of operations and interactions creates increased opportunities to perform below a customer's expectations. Develop knowledge of customer's buying preferences to help design these systems for a sales channel. *What are your future strategic objectives?" A critical part of channel evaluation is an assessment of distributor

and dealer growth plans. Not all distributors and dealers will want to grow. For those that do, the desire to grow starts with senior management and permeates the company's business practices, service culture and compensation plans. Growth plans must be realistic, reflecting the investments and skills required to sell new products or to sell to new customers. Dealers and distributors must be able to articulate the reasons why a customer buys from them and have a clear plan for how technology fits into their company. Business relationships between manufacturers and distributors are not altruistic, nor should they be. A strategic perspective on evolving channel systems will create a better and more effective go-to-market strategy.

2.4.6 Types of Channel Intermediaries And Their Functions –

There are many types of intermediaries such as wholesalers, agents, retailers, the Internet, overseas distributors, direct marketing (from manufacturer to user without an intermediary), and many others. The main modes of distribution will be looked at in more detail.

1. **Channel Intermediaries –Wholesalers** : They break down 'bulk' into smaller packages for resale by a retailer. They buy from producers and resell to retailers .They take ownership or 'title' to goods whereas agents do not. They provide storage facilities. For example ,cheese manufacturers seldom wait for their product to mature. They sell on to a whole saler that will store it and eventually resell to a retailer. Wholesalers offer reduce the physical contact cost between the producer and consumer e.g. customer service costs, or sales force costs. A wholesaler will often take on the some of the marketing responsibilities. Many produce their own brochures and use their own tele sales operations
2. **Channel Intermediaries – Agents**: Agents are mainly used in international markets. An agent will typically secure an order for a producer and will take a commission. They do not tend to take title to the goods. This means that capital is not tied up in goods. However, a 'stockist agent' will hold consignment stock (i.e. will store the stock, but the title will remain with the producer. This approach is used where goods need to get into a market soon after the order is placed e.g. foodstuffs). Agents can be very expensive to train. They are difficult to keep control of due to the physical distances involved. They are difficult to motivate.
3. **Channel Intermediaries -Retailers** Retailers will have a much stronger personal relationship with the consumer. The retailer will hold several other

brands and products. A consumer will expect to be exposed to many products. Retailers will often offer credit to the customer e.g. electrical wholesalers, or travel agents. Products and services are promoted and merchandised by the retailer. The retailer will give the final selling price to the product. Retailers often have a strong 'brand' themselves e.g. Ross and Wall-Mart in the USA ,

Channel Intermediaries –Internet The Internet has a geographically disperse market.

- The main benefit of the Internet is that niche products reach wider
- There are low barriers low barriers to entry as set up costs are low.

Self-exercise

1. What is Process of distribution in the marketing process ?
2. Why companies use distribution channels? and explain the functions that these channels perform?
3. How channel members interact and how they organize to perform the work of the channel.
4. The major channel alternatives that are open to a company.

   What are concept and different forms of retailing and wholesaling.
5. How companies select, motivate, and evaluate channel member
6. The nature and importance of marketing logistics and integrated supply chain management

BBA PART-II	**PAPER – BBA : 303**
SEMESTER-III	**PRINCIPLES OF MARKETING MANAGEMENT**

LESSON NO. 2.5	**AUTHOR : Dr. APAR SINGH**

Promotion mix

Lesson Structure

2.5.1 Introduction to promotion

2.5.2 Promotion mix

2.5.3 Communication process

2.5.4 Developing effective communications

2.5.5 Integrated marketing communications

2.5.6 The role of promotion

2.5.7 Advertising

2.5.8 Types of advertising

2.5.9 Developing advertisement program

2.5.10 Different advertising media

2.5.11 Deciding on media and measuring effectiveness

2.5.1 Introduction to Promotion

The promotional mix is one of the 4Ps of the marketing mix. It consists of public relations, advertising, sales promotion and personal selling. Promotion *is communication about an organization and its products that is intended to inform, persuade, or remind target market members* Promotion's role is ***to communicate with individuals, groups, or organisations to directly or indirectly***

facilitate exchanges by informing and persuading one or more of the audiences to accept an organisation's products.

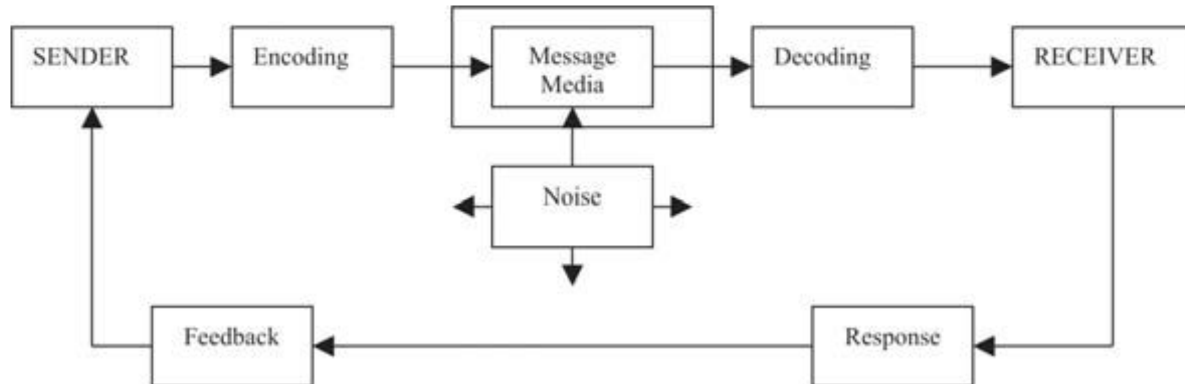
To facilitate exchanges directly, marketers communicate with selected audiences about their companies and their goods, services and ideas. Marketers indirectly facilitate exchanges by focusing information about company activities and products on interest groups, current and potential investors, regulatory agencies, and society in general. Promotion can play a comprehensive communication role. Some promotional activities can be directed towards helping a company justify its existence and maintain healthy, positive relationships between itself and various groups in the marketing environment. To develop and implement effective promotional activities, a firm must use information from the marketing environment, often obtained from its marketing information system. The degree to which marketers can effectively use promotion to maintain positive relationships with environmental forces depends largely on the quantity and quality of information an organisation takes in.

2.5.2 Promotion Mix

A *promotion mix* (sometimes called a marketing communications mix) is the particular combination of promotional methods a firm uses to reach a target market. In this chapter, we examine the process for effective communication and promotion methods of advertising, personal selling, sales promotion, and public relations.

EFFECTIVE COMMUNICATION

THE COMMUNICATION PROCESS: *All of us are a part of communication process of marketers as consumers* .Today there is a new view of communication as a interactive dialogue between the company and its customers that takes place during the pre-selling, selling, consuming, and post-consuming stages. Companies must ask not only "How can we reach our customers?" but also, "How can our customers reach us"'



2.5.3 COMMUNICATION PROCESS

Every *brand contact* delivers an impression that can strengthen or weaken a customer's view of the company. The whole marketing mix must be integrated to deliver a consistent message and strategic positioning. The starting point is an audit of all the potential interactions target customers may have with the product and the company. For example, someone interested in purchasing a new computer would talk to others, see television ads, read articles, look for information on the Internet, and observe computers in a store. Marketers need to assess which experiences and impressions will have the most influence at each stage of the buying process. This understanding will help them allocate communications dollars more efficiently. Marketers also need to understand the fundamental elements of effective communications.

Figure above shows a communication model with nine elements. Two represent the major parties in a communication – sender and receiver. Two represent the major communication tools – message and media. Four represent major communication function – *encoding, deconding, response, and feedback.* The last element in the system is *noise* (random and competing messages that may interfere with the intended communication). The model emphasizes the key factors in effective communication. Senders must know what audiences they want to reach and what responses they want to get. They must encode their messages so that the target audience can decode them. They must transmit the message through media that reach the target audience and develop feedback channels. To monitor the responses. The more the sender's field of experience overlaps with that of the receiver, the more effective the message is likely to be.

S*ometimes the target audience may not receive the intended message.* Some of the possible reasons could be –

Selective attention: People are bombarded with many commercial messages a day, of which only a few are consciously noticed and provoke some reaction. Selective attention explains why ads with bold headlines promising something, such as "How to Make a Million," have a high likelihood of getting attention.

Selective distortion*:* People will retain in long term memory only a small fraction of the messages that reach them. If the receiver's initial attitude toward the object is positive and he or she rehearses support arguments, the message is likely to be accepted and have high recall. If the initial attitudes negative and the person rehearses counterarguments, the message is likely to be rejected but to stay in long-term memory. Because persuasion requires the receiver's rehearsal of his or her own thoughts, much of what is called persuasion is actually self-persuasion

2.5.4 Developing Effective Communications

1. **Identify the target audience -**The process must start with a clear target audience in mind: potential buyers of the company's products, current users, deciders, or influencers; individuals, groups, particular publics, or the general public. The target audience is a critical influence on the communicator's decisions on what to say, how to say it, when to say it, where to say it, and to whom to say it.

2. **Determine the communication objectives -** The marketer can be seeking a *cognitive, affective,* or *behavioral response.* That is, the marketer might want to put something into the consumer's mind, change an

3. **Design the message -** Having defined the desired response, the communicator moves to developing an effective message. Ideally, the message should gain *attention,* Hold *interest,* arouse *desire,* and elicit *action* Formulating the message will require solving four problems: what to say (message content,) how to say it logically (message structure), how to say it symbolically (message format), and who should say it (message source).

- *Message content***:** In determining message content, management searches for an appeal, theme, idea, or unique selling proposition (USP). There are three types of appeals: rational, emotional, and moral.

- *Message structure* Effectiveness depends on structure as well as content

- *Message format* The message format needs to be strong. In a print ad, the communicator has to decide on headline, copy, illustration, and color. For a radio message, the communicator has to choose words, voice qualities, and vocalizations. The “sound” of an announcer promoting a used automobile has to be different from one promoting a new Cadillac. If the message is to be carried on television or in person, all these elements plus body language (nonverbal clues) have to be planned. Presenters have to pay attention to facial expressions, gestures, dress, posture, and hairstyle, If the message is carried by the product or its packaging, the communicator has to pay attention to color, texture, scent, size, and shape

- *Message source* Message delivered by attractive or popular sources achieve higher attention and recall. This is why advertisers often use celebrities .What is important is the spokesperson’s credibility. Pharmaceutical companies what doctors to testify about product benefits because doctors have high credibility. Anti drug crusaders will use ex-drug addicts because they have higher credibility for students than teachers do. What factors underlie source credibility? The three most often identified are expertise, trustworthiness, and likability attractiveness.

4. Select the communication channels - The communicator must select efficient channels to carry the message. For example, pharmaceutical company salespeople can rarely wrest more than five minutes’ time from a busy physician. Their presentation must be crisp, quick, and convincing. This makes pharmaceutical sales calling extremely expensive. The industry has had to expand its battery of communication channels. These include placing ads in medical journals, sending direct mail (including audio and videotapes), passing out free samples, and even telemarketing.

5. Establish the total marketing communication budget - One of the most difficult marketing decisions is determining how much to spend on promotion. John Wanamaker, the departmentstore magnate, once said, “ know that half of my advertising is wasted, but I don’t know which half.”

6. Deciding on the marketing communications mix - Companies must allocate the promotion budget over the give promotional tools – advertising, sales promotion, public relations and publicity, sales force, and direct marketing

2.5.5 Integrated Marketing Communications

A. *Integrated marketing communications* is the coordination of promotion efforts to ensure the maximum informational persuasive impact on customers.

B. A major goal of integrated marketing communications is to send a consistent message to customers.

C. This approach fosters long-term customer relationships and the efficient use of promotional resources.

D. The concept of integrated marketing communications has been increasingly accepted for a number of reasons.

 Mass media advertising is used less today because of its high costs and less predictable audience sizes.

 Marketers can now take advantage of more precisely targeted promotional tools, such as cable TV, direct mail, CD ROMS, the Internet, special interest magazines, and voice broadcasts.

 Database marketing is also allowing marketers to be more precise in targeting individual customers.

2.5.6 THE ROLE OF PROMOTION

Promotion is commonly the object of two misconceptions.

People take note of highly visible promotional activities, such as advertising and personal selling, and conclude that these make up the entire field of marketing. People sometimes consider promotional activities to be unnecessary, expensive, and the cause of higher prices. Neither view is accurate. The role of promotion is to facilitate exchanges directly or indirectly by informing individuals, groups, or organizations and influencing them to accept a firm's products or to have more positive feelings about the firm.

a. To expedite exchanges directly, marketers convey information about a firm's goods, services, and ideas to particular market segments.

b. To bring about exchanges indirectly, marketers address certain interest groups, regulatory agencies, investors, and the general public

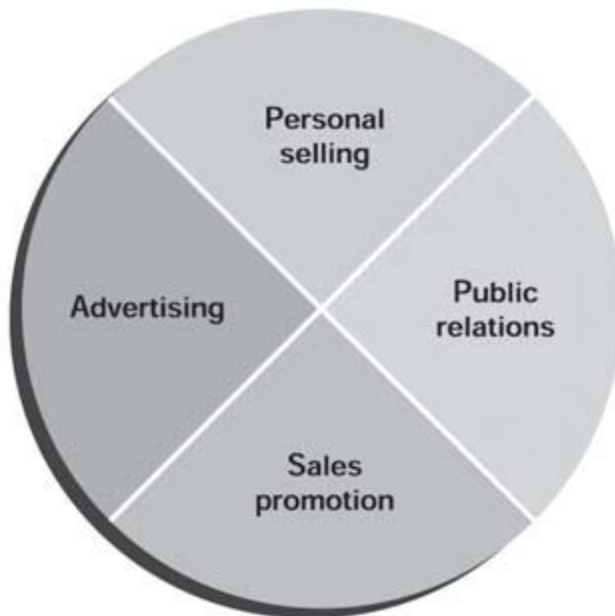
c. he broader role of promotion, therefore, is to maintain positive relationships between a company and groups in the marketing environment.

d. Marketers must carefully plan, implement, and coordinate promotional communications to make the best use of them.

The effectiveness of promotional activities depends greatly on the quality and quantity of information available to marketers about the organization's marketing environment.

(Marketers must gather and use information about particular audiences to communicate successfully with them.

The Promotion Mix: An Marketers can use several promotional methods to communicate with individuals, groups, and organizations.



Advertising, personal selling, sales promotion, and publicity are the four major elements in an organization's promotion mix.

Two, three, or four of these ingredients are used in a promotion mix, depending on the type of product and target market involved.

Factors Affecting The Selection Of The Promotion Mix Elements We will broadly look at some of the major considerations in promotion.:-

Promotion Resources, Objectives, and Policies –A limited promotional budget affects the number and types of promotion mix components affordable to a firm. –Objectives and policies influence the types of promotion selected.

Characteristics of the Target Market –Market size, geographic distribution, and demographics help dictate the choice of promotion mix elements.

Characteristics of the Product

2.5.7 Advertising

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

Advertising can be traced back to the very beginnings of recorded history. Archaeologists working in the countries around the Mediterranean Sea have dug up signs announcing various events and offers. The Romans painted walls to announce gladiator fights, and the Phoenicians painted pictures promoting their wares on large rocks along parade routes. Modern advertising, however, is a far cry from these early efforts. Although advertising is used mostly by business firms, it also is used by a wide range of not-for profit organizations, professionals, and social agencies that advertise their causes to various target publics In fact, the twenty-fourth largest advertising spender is a not-for-profit organization — the U.S. government. Advertising is a good way to inform and persuade, whether the purpose is to sell Coca-Cola worldwide or to get consumers in a developing nation to use birth control Organizations handle advertising in different ways. In small companies, advertising is handled by someone in the sales or marketing department, who works with an advertising agency. A large company will often set up its own department, whose manager reports to the vice president of marketing. The advertising department's job is to propose a budget; develop advertising strategy; approve ads and campaigns; and handle direct mail advertising, dealer displays, and other forms of advertising. Most companies use an outside agency to help create advertising campaigns and to select and purchase media. Prof. W.J. Stanton, "Advertising consists of all activities involved in presenting to a group a non-personal, oral or visual, openly sponsored message regarding a product, service, or an idea; this message, called in advertisement is disseminated through one or more media and is paid for by the identified sponsor."

2.5.8 Types of Advertising

Depending on its purpose and message, advertising may be classified into three groups.

1. Primary-Demand Advertising.

Primarydemand advertising is advertising aimed at increasing the demand for all brands of a product within a specific industry.

Trade and industry associations are the major users of primary-demand advertising.

Their advertisements promote broad product categories without mentioning specific brands.

2. Selective Demand Advertising.

Selective demand (or *brand*) *advertising* is advertising that is used to sell a particular brand of product.

It is by far the most common type of advertising, and it accounts for the lion's share of advertising expenditures. Selective advertising that aims at persuading consumers to make purchases within a short time is called *immediate-response advertising*. Selective advertising aimed at keeping a firm's name or product before the public is called *reminder advertising*. Comparative advertising compares specific characteristics of two or more identified brands.

3. Institutional Advertising. *Institutional advertising* is advertising designed to enhance a firm's image or reputation.

2.5.9 DEVELOPING ADVERTISEMENT PROGRAM

Marketers must make four important decisions when developing an advertising program

- setting advertising objectives, - setting the advertising budget,
- *developing advertising strategy* (*message decisions* and *media decisions*), and
- *evaluating advertising campaigns.*

The Five Ms of Advertising

1. Setting the advertising objectives - The advertising objectives must flow from prior decisions on target market, market positioning, and marketing mix. Advertising objectives can be classified according to whether their aim is to inform, persuade, remind, or reinforce.

- *Informative advertising* aims to create awareness and knowledge of new products or new features of existing products.
- *Persuasive advertising* aims to create liking, preference, conviction, and purchase of a product or service. Some persuasive advertising uses comparative advertising, which makes an explicit comparison of the

attributes of two or more brands..” Comparative advertising works best when it elicits cognitive and affective motivations simultaneously.

- *Reminder advertising* aims to stimulate repeat purchase of products and services. Expensive, four-color Coca-Cola ads in magazines are intended to remind people to purchase Coca-Cola
- *Reinforcement advertising* aims to convince current purchasers that they made the right choice. Automobile ads often depict satisfied customers enjoying special features of their new car.

2. Deciding on the advertising budget - How does a company known if it is spending the right amount? Some critics charge that large, consumer packaged-goods firms tend to overspend on advertising as a form of insurance against not spending enough, and that industrial companies underestimate the power of company and product image building and tend to underspend There are five specific factors to consider when setting the advertising budget:

1. Stage in the product life cycle - New products typically receive large advertising budgets to build awareness and to gain consumer trial. Established brands usually are supported with lower advertising budgets as a ratio to sales.

2. Market share and consumer base - Highmarket- share brands usually require less advertising expenditure as a percentage of sales to maintain share. To build share by increasing market size requires larger expenditures. On a costper- impression basis, it is less expensive to reach consumers of a widely used brand than to reach consumers of low-share brands.

3. Competition and cluster - In a market with a large number of competitions and high advertising spending, a brand must advertise more heavily to be heard. Even simple cluster from advertisements not directly competitive to the brand creates a need for heavier advertising.

4. Advertising frequency: The number of repetitions needed to put across the brand’s message to consumers has an important impact on the advertising budget.

5. Product substitutability: Brands in a commodity class (cigarettes, beer, soft drinks) require heavy advertising to establish a differential image. Advertising is also important when a brand can offer unique physical benefits or features. Choosing the advertising message: Advertising campaigns vary in creativity: -

- ***Message generation*:** advertising people have proposed different theories for creating an effective message. Whatever method is used, creative people should talk to consumers, dealers, and experts. However, when competitors all hear the same talk from members of the target market, they often end up using the same appeal. Many of today's ads for automobiles have a sameness about them – a car driving 90 miles an hour on a curved mountain road – with the result that only a weak link is established between the brand and the message.

- ***Message evaluation and selection*** a good ad normally focuses on one core selling proposition. Dik Twedt suggested that messages be rated on *desirability, exclusiveness,* and *believability*

- ***Message execution*** The message's impact depends not only on what is said, but often more important, on how it is said. Some ads aim for *rational positioning* and other for *emotional positioning.* Message execution can be decisive for highly similar products, such as detergents, cigarettes, coffee, and vodka.

- ***Social responsibility review advertisers and their agencies*** must be sure their "creative" advertising does not overstep social and legal norms. Most marketers work hard to communicate openly and honestly with consumers. Still, abuses occur, and public policy makers have developed a substantial body of laws and regulations to govern advertising.

Deciding on media and measuring effectiveness After choosing the message, the advertiser's next task is to choose media to carry it. The steps here are deciding on desired reach, frequency, and impact; choosing among major media types; selecting specific media vehicles; deciding on media timing; and deciding on geographical media allocation. Then the results of these decisions need to be evaluated

6. Evaluating advertising effectiveness - Good planning and control of advertising depend on measures of advertising effectiveness. Yet the amount of fundamental research on effectiveness is appallingly small. Most measurement of advertising effectiveness deals with specific ads and campaigns. Most of the money is spent by agencies on pretesting ads, and much less is spent on evaluating their effectiveness. A proposed campaign should be tested in one or a few cities first and its impact evaluated before rolling it out nationally. One company tested its new campaign first in Phoenix. The campaign bombed, and the company saved all the money that it would have spent by going national Most advertisers try to measure

the communication effect of an ad-that is, its potential effect on awareness, knowledge, or preference. They would also like to measure the ad's sales effect. There are three major methods of advertising pretesting.

i. The consumer feedback method asks consumers for their reactions to a proposed ad. They respond to such questions as these

1. What is the main message you get from this ad?
2. What do you think they want you t know, believe, or do?
3. How likely is it that this ad will influence you to undertake the implied action?
4. What works well in the ad and what works poorly?
5. How does the ad make you feel.?
6. Where is the best place to reach you with this message?
7 Where would you be most likely to notice it and pay attention to it
8. Where are you when you make decisions about this action?

ii *Portfolio tests ask consumers* to view or listen to a portfolio of advertisements, taking as much time as they need. Consumers are then asked to recall all the ads and their content, aided or unaided by the interviewer. Recall level indicates an ad's ability to stand out and to have its message understood and remembered.

iii Laboratory tests use equipment to measure physiological reaction – heartbeat, blood pressure, pupil dilation, galvanic skin response, perspiration – to an ad; or consumers may be asked to turn a knob to indicate their moment-to-moment liking or interest while viewing sequenced material. These tests measure attention-getting power but reveal nothing about impact on beliefs, attitudes, or intentions.

2.5. 10 DIFFERENT ADVERTISING MEDIA

The *advertising media* are the various forms of communication through which advertising reaches its audience.

I. Newspapers. Newspaper advertising accounts for almost one-fourth of all advertising expenditures.

 Newspaper advertising is used extensively by retailers because it is relatively inexpensive compared to other media.

 Because it provides only local coverage, advertising dollars are not wasted in reaching people who are outside the market area.

 It is also timely.

 There are some drawbacks to newspaper advertising.

i. It has a short life span.

ii. Color reproduction is usually poor.

iii. Marketers cannot target specific markets through newspaper ads.

iv. Ads are usually read once and then discarded.

II. Magazines. The advertising revenues of magazines have been climbing.

 Advertisers can reach very specific market segments through ads in special-interest magazines.

 A number of magazines like *Time* and *Cosmopolitan* publish regional editions, which provide advertisers with geographic flexibility.

 Magazine advertising is more prestigious than newspaper advertising, and it provides high-quality color reproduction.

 Magazine advertisements have a longer life span.

 The major disadvantages of magazine advertising are high cost and lack of timeliness.

III.Direct Mail. *Direct-mail advertising* is promotional material mailed directly to individuals.

 Direct mail is the most selective medium: Mailing lists are available (or can be compiled) to reach almost any target audience.

 The effectiveness of direct-mail advertising can be measured because the advertiser has a record of who received the advertisement and can track who responds.

 Some organizations are using direct e-mail.

 A direct-mail campaign may fail if the mailing list is outdated and the mailing does not reach the right people.

IV. Outdoor Advertising. *Outdoor advertising* consists of short promotional messages on billboards, posters, and signs.

 Sign and billboard advertising allow the marketer to focus on a particular geographic area, and it is fairly inexpensive.

 However, because most outdoor advertising is directed at a mobile audience, the message must be limited to a few words.

 The medium is especially suitable for products that lend themselves to pictorial display.

V. Television. Television ranks number one in total revenue.

 Television advertising is the primary medium for larger firms whose objective is to reach national or regional markets.

1. A national advertiser may buy *network time*, which means that its message usually will be broadcast by hundreds of local affiliated stations.

2. Both national and local firms may buy *local time* on a single station that covers a particular geographic selling area.

 Advertisers may sponsor an entire show, or they may buy *spot time* for a single 10-, 20-, 30-, or 60-second commercial during or between programs.

 To an extent, they may select their audience by choosing the day of the week and the time of day when their ads will be shown.

 Infomercial. An *infomercial* is a program-length (usually a half-hour) televised commercial

message resembling an entertainment or consumer affairs programs.

 Television advertising rates are based on the number of people expected to be watching when a commercial is aired.

 Unlike magazine advertising, and perhaps like newspaper ads, television advertising has a short life.

VI. Radio. Advertisers 8 percent of total expenditures, on radio advertising Like magazine ad vertising, radio advertising offers selectivity.

 Radio can be less expensive than other media.

 Actual rates depend on geographic coverage, the number of commercials contracted for, the time period specified, and whether the station broadcasts on AM, FM, or both.

 Even small retailers are able to afford radio advertisements.

VII. Internet. The Internet is the newest advertising medium and is growing in popularity. Thereare five types of Internet advertisements.

 Banner ads are rectangular graphics appearing at the top of most consumer web sites.

 Button ads are small squarish ads appearing at the bottom of a web page; they contain only a corporate or brand name.

 Sponsorship (or co-branded) ads integrate a company's brand with editorial comment.

 Keyword ads, featured primarily on Internet search engines, link a specific ad to text or subject matter that an information seeker may enter.

 Interstitial ads (in-your-face ads) pop up to display a product ad when viewers click on a web site.

Cost per thousand (CPM) for Internet advertising is higher than that of television advertising. Benefits of using the Internet as an advertising medium include the growth of Internet use by a variety of different types of people and the ability to precisely target a specific audience. Problems associated with using the Internet as an advertising medium include the relatively mediocre quality of the advertisements that can be created and the lack of evidence regarding the effectiveness of Net ads.

2.5.11 DECIDING ON MEDIA AND MEASURING EFFECTIVENESS

Let us now focus n media planning

After choosing the message, the advertiser's next task is to choose media to carry it. The steps here are

 Deciding on desired reach, frequency, and impact;

 Choosing among major media types

 selecting specific media vehicles;

 Deciding on media timing; and

(i) Deciding on reach, frequency , and impact Media selection is finding the most cost-effective media to deliver the desired number and type of exposures to the target audience. What do we mean by the desired number of exposures? Presumably, the advertiser is seeking a specified advertising objective and response from the target audience – for example, a target level of product trial. The rate of

product trial will depend, among other things, on level of brand awareness. Suppose the rate of product trial increases at a diminishing rate with the level of audience awareness, as shown in Figure. If the advertiser seeks a product trial rate of (say) t*, it will be necessary to achieve a brand awareness level of A*. The next task is to find out how many exposures, E*, will produce a level of audience awareness of A.* The effect of exposures on audience awareness depends on the exposures' reach, frequency, and impact:

 Reach : The number of different persons or households exposed to a particular media schedule at least once during a specified time period.

 Frequency (F): The number of times within the specified time period that an average person or household is exposed to the message

 Impact (I): The qualitative value of an exposure through a given medium (thus a food ad in Good Housekeeping would have a higher impact than in the Police Gazette).

(ii) Choosing among major media types The media planner has to know the capacity of the major media types to deliver reach, frequency, and impact.

Media planners make their choice among media categories by considering the following variables:

 Target-audience media habits: For example , radio and television are the most effective media for reaching teenagers.

 Product characteristics: Media types have different potentials for demonstration, visualization, explanation, believability, and color. Women's dresses are best shown in color magazines , and Polaroid cameras are best demonstrated on television.

 Message Characteristics: Timeliness and information content will influence media choice. A message announcing a major sale tomorrow will require radio, TV, or newspaper. A message containing a great deal of technical data might require specialized magazines or mailings.

 Cost: Television is very expensive, whereas newspaper advertising is relatively inexpensive. What counts is the cost-per-thousand exposures.

(iii) Selecting specific vehicles The media planner must search for the most cost-effective vehicles within each chosen media type. The advertiser who decides to buy 30 seconds of Audience size has several possible measures:

 Circulation: The number of physical units carrying the advertising.

 Audience: The number of people exposed to the vehicle. (If the vehicle has pass-on readership, then the audience is larger than circulation)

·*Effective audience:* The number of people with target audience characteristics exposed to the vehicle.

 Effective ad-exposed audience: The number of people with target audience characteristics who actually saw the ad.

Media planners are increasingly using more sophisticated measures of effectiveness and employing them in mathematical models to arrive at the best media mix. Many advertising agencies use acomputer program to select the initial media and then make further improvements based on subjectivefactors. 34

(iv) Deciding on media timing - In choosing media, the advertiser faced both a macro scheduling and a micro scheduling problem involves scheduling the advertising in relation to seasons and the business cycle. Suppose 70 percent of a product's sales occur between June and September. The firm can vary its advertising expenditures to following the seasonal pattern, to oppose the seasonal pattern, orto be constant throughout the year. Most firms pursue a seasonal policy. Yet some year ago, a soft drink manufacturer put more money into off-season advertising. This resulted in increased non seasonal consumption of its brand, while not hurting seasonal consumption. Other soft drink manufactures started to do the same, and the result was a more balanced consumption patterns.

The most effective pattern depends on the communication objectives in relation to the nature of the product, target customers, distribution channels, and other marketing factors. The timing patterns should consider three factors. *Buyer turnover* expresses the rate at which new buyers enter the market; the higher this rate, the more continuous the advertising should be.

Purchase frequency is the number of times during the period that the average buyer buys the product; the higher the purchase frequency, the more continuous the advertising should be. The forgetting rate at which the buyer forgets the brand; the higher the forgetting rate, the more continuous the advertising should be.

In launching a new product, the advertiser has to choose among ad continuity, concentration, flighting, and pulsing. Continuity is achieved by scheduling exposures evenly throughout a given period.

Generally, advertisers use continuous advertising in expanding market situations, with frequently purchased items, and in tightly defined buyer categories.

Concentration calls for spending all the advertising dollars in a single period. This makes sense for products with one selling season or holiday.

Self-exercise

1. How communication works; determine the major steps in developing an integrated marketing communications program ?
2. Who should be responsible for marketing communication planning ?

   What steps are involved in developing an advertising program ?
3. What is driving the growing use of sales promotion, and how sales promotion decisions are made.
4. How companies exploit the potential of public relations and publicity ?
5. Determine how companies use integrated direct marketing for competitive advantage.

BBA PART-II	**PAPER – BBA : 303**
SEMESTER-III	**PRINCIPLES OF MARKETING MANAGEMENT**
LESSON NO. 2.6	**AUTHOR : Dr. APAR SINGH**

LAWS RELATED TO MARKETING

Lesson structure

2.6.1 Indian Contract Act, 1872 :

2.6.2 Sale of Goods Act, 1930 :

2.6.3 Trade Marks Act , 1999 :

2.6.4 Consumer Protection Act, 1986

2.6.5 Legal provisions related Copyright, patents and trademark,

2.6.6 Competition Act

2.6.6 Designs Act, 2000

2.6.7 Copyright Act, 1957

2.6.1 The Indian Contract Act, 1872

The law of contract in India is contained in the Indian Contract Act 1872. This Act is based mainly on English common law, which is to a large extent made up of judicial precedents. (there being a separate contract act in England). It extends to the whole of India except the state of Jammu and Kashmir and came into force on the first day of September 1872(Sec.1 Indian Contract Act 1872). The act is not exhaustive. It does not deal with all the branches of the law of contract. There are separate acts, which deal with contracts relating to negotiable instruments, transfer of property, sale of goods, partnership, insurance, etc. Again the act does not affect any usage or custom of trade (Sec.1).

We enter into contracts so many times in a day that ‘contract’ has become an indispensable part of our life. When you purchase milk or newspaper in the morning or go to movie in the evening, you are entering into a contract. Indian Contract Act really codifies the way we enter into a contract, execute a contract, implement provisions of a contract and effects of breach of a contract. Basically, a person is free to contract on any terms he chooses. The Contract Act consists of limiting factors subject to which contract may be entered into, executed and breach enforced. It only provides a framework of rules and regulations which govern formation and performance of contract. The rights and duties of parties and terms of agreement are decided by the contracting parties themselves. The court of law acts to enforce agreement, in case of non-performance.

Section 1 of Contract Act provides that any usage or custom or trade or any incident of contract is not affected as long as it is not inconsistent with provisions of the Act. In other words, provision of Contract Act will prevail over any usage or custom or trade.

It must be noted that contract need not be in writing, unless there is specific provision in law that the contract should be in writing. [e.g. * contract for sale of immovable property must be in writing, stamped and registered. * Contracts which need registration should be in writing * Bill of Exchange or Promissory Note must be in writing. * Trust should be created in writing * Promise to pay a time barred loan should be in writing, as per Limitation Act * Contract made without consideration on account of natural love and affection should be in writing]. A verbal contract is equally enforceable, if it can be proved.. A contract can be enforced or compensation/damages for breach of contract can be obtained through Civil Court

Essential Ingredients of a contract - As per Contract Act, an agreement enforceable by law is a contract. [section 2(h)]. Hence, we have to understand first what is ‘agreement’.

Every promise and every set of promises, forming the consideration for each other, is an agreement. [section 2(e)]. A person makes a proposal (offer). When it is accepted by other, it becomes a promise. However, promise cannot be one sided. Only a mutual promise forming consideration for each other is ‘agreement’. For example, A agrees to pay Rs 100 to B and B agrees to give him a book which is priced at Rs 100. This is set of promises which form consideration for each other. However, if A agrees to pay Rs 100 to B, but B does not promise anything, it is not ‘set of promises forming consideration for each other’ and hence not an agreement.

It should be noted that the term ‘agreement’ as defined in Contract Act requires mutual consideration. - - Thus, if A invites B to dinner and B agrees to come, it is not an ‘agreement’ as defined in Contract Act.

Meaning of ‘Proposal’ - When one person signifies to another his willingness to do or to abstain from doing anything, with a view to obtaining the assent of that other to such act or abstinence, he is said to make a proposal. [section 2(a)].- - Thus, a ‘proposal’ can be to do a positive act or abstinence from act (i.e. negative act). [English Act uses the word ‘offer’, while Indian Contract Act uses the word ‘proposal’. Generally, both words are used inter-changeably. This is not technically correct, as the word ‘offer’ is not used in Contract Act].

Meaning of ‘Promise’ - When the person to whom the proposal is made signifies his assent thereto, the proposal is said to be accepted. A pro-posal, when accepted, becomes a promise. [section 2(b)]. Thus, when a proposal (offer) is accepted, it becomes a ‘promise’. As is clear from the definition, only person to whom proposal is made can signify his assent. Other person cannot accept a proposal.

Promisor and promisee - The person making the proposal is called the “promisor”, and the person accepting the proposal is called the “promisee”. [section 2(c)].

Reciprocal promises - Promises which form the consideration or part of the consideration for each other are called reciprocal promises. [section 2(f)].

Consideration for promise – The definition of ‘agreement’ itself states that the mutual promises should form consideration of each other. Thus, ‘consideration’ is essential for an agreement. A promise without consideration is not ‘agreement’ and hence naturally, it is not a ‘contract’.

Definition of ‘consideration’ - When, at the desire of the promisor, the promisee or any other person has done or abstained from doing, or does or abstains from doing, or promises to do or to abstain from doing, something, such act or abstinence or promise is called a consid-eration for the promise. [section 2(d)].

Steps involved in contract - The steps involved in the contract are – * proposal and its communication * acceptance of proposal and its communication * Agreement by mutual promises * Contract * Performance of Contract. All agreements are not contract. Only those agreements which are enforceable by law are ‘contracts’.

Following are essential requirements of a valid contract.

- Offer and its acceptance
- Free consent of both parties

- Mutual and lawful consideration for agreement
- It should be enforceable by law. Hence, intention should be to create legal relationship. Agreements of social or domestic nature are not contracts
- Parties should be competent to contract
- Object should be lawful
- Certainty and possibility of performance

Contract should not have been declared as void under Contract Act or any other law Communication, acceptance and revocation of proposals - Communication of proposal/ revocation/acceptance are vital to decide validity of a contract. A 'communication' is complete only when other party receives it.

Acceptance must be absolute - In order to convert a proposal into a promise, the acceptance must - (1) be absolute and unqualified; (2) be expressed in some usual and reasonable manner, unless the proposal prescribed the manner in which it is to be accepted. If the proposal prescribes a manner in which it is to be accepted, and the acceptance is not made in such a manner, the proposer may, within a reasonable time after the acceptance is communicated to him, insist that his proposal shall be accepted in the prescribed manner, and not otherwise; but if he fails to do so, he accepts the acceptance. [section 7].

Acceptance of offer is complete only when it is absolute and unconditional. Conditional acceptance or qualified acceptance is no acceptance.

Promises, express or implied - Insofar as the proposal or acceptance of any promise is made in words, the promise is said to be express. Insofar as such proposal or acceptance is made otherwise than in words, the prom-ise is said to be implied. [section 9]. For example, if a person enters a bus, there is implied promise that he will pay the bus fair.

Voidable Contract - An agreement which is enforceable by law at the option of one or more of the parties thereto, but not at the option of the other or others, is a voidable contract. [section 2(i)]. (a) When consent is obtained by coercion, undue influence, misrepresentation or fraud is voidable at the option of aggrieved party i.e. party whose consent was obtained by coercion/fraud etc. However, other party cannot avoid the contract. (b) When a contract contains reciprocal promises and one party to contract prevents the other from performing his promise, the contract becomes voidable at the option of the party to prevented. (section 53). Obvious principle is that a person cannot take advantage of his own wrong (c) When time is essence of contract and party fails to perform in time, it is voidable at the option of

other party (section 55). A person who himself delayed the contract cannot avoid the contract on account of (his own) delay.

Void contract - A contract which ceases to be enforceable by law be-comes void when it ceases to be enforceable. [section 2(j)]. Thus, initially a contract cannot be void, i.e. a contract cannot be void ab initio. The simple reason is that in such a case, it is not a contract at all to begin with. Hence, only a valid contract can become void contract due to some subsequent events. e.g. the person dies or property is destroyed or Government imposes a ban etc. A void agreement is void ab initio. It never becomes a contract. It is nullity and cannot create any legal rights.

What agreements are contracts - All agreements are contracts if they are made by the free consent of parties competent to contract, for a lawful considera-tion and with a lawful object, and are not hereby expressly declared to be void. Nothing herein contained shall effect any law in force in India and not hereby expressly repealed, by which any contract is required to be made in writing or in the presence of witnesses, or any law relating to the registration of documents. [section 10].

Who are competent to contract - Every person is competent to contract who is of the age of majority according to the law to which he is subject, and who is of sound mind, and is not disqualified from contracting by any law to which he is subject. [section 11].

Free consent – Consent of both parties must be free. Consent obtained through coercion, undue influence, fraud, misrepresentation or mistake is not a 'free consent'. - - Two or more persons are said to consent when they agree upon the same thing in the same sense. [section 13]. Consent is said to be free when it is not caused by - (1) coercion, as defined in section 15, or (2) undue influence, as defined in section 16, or (3) fraud, as defined in section 17, or (4) misrepresentation, as defined in section 18, or (5) mistake, subject to the provisions of sections 20, 21 and 22. - - Consent is said to be so caused when it would not have been given but for the existence of such coercion, undue influence, fraud, misrepresentation or mistake. [section 14].

Void agreements - An agreement not enforceable by law is said to be void. [section 2(g)]. - - Note that it is not 'void contract', as an agreement which is not enforceable by law does not become 'contract' at all. Following are void agreements - * Both parties under mistake of fact (section 20) * Unlawful object or consideration (section 24) * Agreement without consideration (section 25) * Agreement in

restraint of marriage (section 26) * Agreement in restraint of trade (section 27) * Agreement in restraint of legal proceedings (section 28) * Uncertain agreement (section 29) * Wagering agreement (section 29) * Agreement to do an impossible Act (section 56).

Quasi Contracts - ‘Quasi’ means ‘almost’ or ‘apparently but not really’ or ‘as if it were’. This term is used when one subject resembles another in certain characteristics but there are intrinsic differences between the two. ‘Quasi contract’ is not a ‘contract’. It is an obligation which law created in absence of any agreement. It is based on equity. There are certain relations resembling those created by contract. These are termed as ‘quasi contracts’. These are – (a) Supply of necessaries (section 68) (b) Payment of lawful dues by interested person (section 69) (c) Person enjoying benefit of a gratuitous act (section 70) (d) Finder of goods (section 71) (d) Goods or anything delivered by mistake or coercion (section 72).

Consequences of Breach of Contract - Compensation is payable for breach of contract. Penalty is also payable if provided in contract. Breach of contract may be actual or anticipatory.

Contract of guarantee - A “contract of guarantee” is a contract to perform the promise, or discharge the liability, of a third person in case of his default. The person who gives the guarantee is called the “surety”; the person in respect of whose default the guarantee is given is called the “principal debtor”, and the person to whom the guarantee is given is called the “creditor”. A guarantee may be either oral or written. [section 126]. - - [Person giving guarantee is also called as ‘guarantor’. However, Contract Act uses the word ‘surety’ which is same as ‘guarantor’]. - - Three parties are involved in contract of guarantee. Contract between any two of them is not a ‘contract of guarantee’. It may be contract of indemnity. Primary liability is of the principal debtor. Liability of surety is secondary and arises when Principal Debtor fails to fulfill his commitments. However, this is so when surety gives guarantee at the request of principal debtor. If the surety gives guarantee on his own, then it will be contract of indemnity. In such case, surety has all primary liabilities.

Consideration for guarantee - Anything done, or any promise made, for the benefit of the principal debtor, may be sufficient consideration to the surety for giving the guarantee. - - Illustrations - (a) B requests A to sell and deliver to him goods on cred-it. A agrees to do so, provided C will guarantee the payment of the price of the goods. C promises to guarantee the payment in consideration of A’s promise to deliver the goods. This is sufficient consideration for C’s promise. (b) A selms and

delivers goods to B. C afterwards requests A to gorbear to sue B for the debt for a year, and promises that if xe does so,`C will pay for them in default of payment by B. A agrees to forbear as requested. This is a sufficient considera-tion for C's promise. (c) A sells and delivers goods to B. C afterwards, without consideration, agrees to pay for them in default of B. The agree-ment is void. [section 127].

Bailment - Bailment is another type of special contract. Since it is a 'contract', naturally all basic requirements of contract are applicable. - - Bailment means act of delivering goods for a specified purpose on trust. The goods are to be returned after the purpose is over. In bailment, possession of goods is transferred, but property i.e. ownership is not transferred. A "bailment" is the delivery of goods by one person to another for some purpose, upon a contract that they shall, when the purpose is accomplished, be returned or otherwise disposed of according to the directions of the person delivering them. The person delivering the goods is called the "bailor". The person to whom they are delivered is called the "bailee". - - Explanation : If a person already in possession of the goods of another, contracts to hold them as a bailee, he thereby becomes the bailee, and owner becomes the bailor, of such goods, although they may not have been delivered by way of bailment. [section 148]. [Thus, initial possession of goods may be for other purpose, and subsequently, it may be converted into a contract of bailment, e.g. seller of goods will become bailee if goods continue in his possession after sale is complete].

Contract of Agency - Agency is a special type of contract. The concept of agency was developed as one man cannot possibly do every transaction himself. Hence, he should have opportunity or facility to transact business through others like an agent. The principles of contract of agency are – (a) Excepting matters of a personal nature, what a person can do himself, he can also do it through agent (e.g. a person cannot marry through an agent, as it is a matter of personal nature) (b) A person acting through an agent is acting himself, i.e. act of agent is act of Principal. Since agency is a contract, all usual requirements of a valid contract are applicable to agency contract also, except to the extent excluded in the Act. One important distinction is that as per section 185, no consideration is necessary to create an agency.

2.6.2 Sale of Goods Act, 1930

Sale of Goods Act is one of very old mercantile law. Sale of Goods is one of the special types of Contract. Initially, this was part of Indian Contract Act itself in

chapter VII (sections 76 to 123). Later these sections in Contract Act were deleted, and separate Sale of Goods Act was passed in 1930.

The Sale of Goods Act is complimentary to Contract Act. Basic provisions of Contract Act apply to contract of Sale of Goods also. Basic requirements of contract i.e. offer and acceptance, legally enforceable agreement, mutual consent, parties competent to contract, free consent, lawful object, consideration etc. apply to contract of Sale of Goods also.

***Contract of Sale* -** A contract of sale of goods is a contract whereby the seller transfers or agrees to transfer the property in goods to the buyer for a price. There may be a contract of sale between one part-owner and another. [section 4(1)]. A contract of sale may be absolute or conditional. [section 4(2)].

Thus, following are essentials of contract of sale - * It is contract, i.e. all requirements of 'contract' must be fulfilled * It is of 'goods' * Transfer of property is required * Contract is between buyer and seller * Sale should be for 'price' * A part owner can sale his part to another part-owner * Contract may be absolute or conditional.

***How Contract of sale is made* -** A contract of sale is made by an offer to buy or sell goods for a price and the acceptance of such offer. The contract may provide for the immediate delivery of the goods or immediate payment of the price or both, or for the delivery or payment by instalments, or that the delivery or payment or both shall be postponed. [section 5(1)]. Subject to the provisions of any law for the time being in force, a contract of sale may be made in writing or by word of mouth, or partly in writing and partly by word of mouth or may be implied from the conduct of the parties. [section 5(2)]. Thus, credit sale is also a 'sale'. - - A verbal contract or contract by conduct of parties is valid. e.g. putting goods in basket in super market or taking food in a hotel.

Two parties to contract - Two parties are required for contract. - - "Buyer" means a person who buys or agrees to buy goods. [section 2(1)]. "Seller" means a person who sells or agrees to sell goods. [section 2(13)]. A part owner can sale his part to another part-owner. However, if joint owners distribute property among themselves as per mutual agreement, it is not 'sale' as there are no two parties.

Contract of Sale includes agreement to sale - Where under a contract of sale the property in the goods is transferred from the seller to the buyer, the contract is called a sale, but where the transfer of the property in the goods is to take place at a future time or subject to some condition thereafter to be fulfilled,

the contract is called an agreement to sell. [section 4(3)]. An agreement to sell becomes a sale when the time elapses or the conditions are fulfilled subject to which the property in the goods is to be transferred. [section 4(4)]. The provision that contract of sale includes agreement to sale is only for the purposes of rights and liabilities under Sale of Goods Act and not to determine liability of sales tax, which arises only when actual sale takes place.

Transfer of property - "Property" means the general property in goods, and not merely a special property. [section 2(11)]. In layman's terms 'property' means 'ownership'. 'General Property' means 'full ownership'. Thus, transfer of 'general property' is required to constitute a sale. If goods are given for hire, lease, hire purchase or pledge, 'general property' is not transferred and hence it is not a 'sale'.

POSSESSION AND PROPERTY - Note that 'property' and 'possession' are not synonymous. Transfer of possession does not mean transfer of property. e.g. - if goods are handed over to transporter or godown keeper, possession is transferred but 'property' remains with owner. Similarly, if goods remain in possession of seller after sale transaction is over, the 'possession' is with seller, but 'property' is with buyer.

Goods - "Goods" means every kind of movable property other than actionable claims and money; and includes stock and shares, growing crops, grass, and things attached to or forming part of the land which are agreed to be severed before sale or under the contract of sale. [section 2(7)].

Price - "Price" means the money consideration for a sale of goods. [section 2(10)]. Consideration is required for any contract. However, in case of contract of sale of goods, the consideration should be 'price' i.e. money consideration.

Ascertainment of price **-** The price in a contract of sale may be fixed by the contract or may be left to be fixed in manner thereby agreed or may be determined by the course of dealing between the parties. [section 9(1)]. Where the price is not determined in accordance with the foregoing provisions, the buyer shall pay the seller a reasonable price. What is a reasonable price is a question of fact dependent on the circumstances of each particular case. [section 9(2)].

Caveat Emptor - The principle termed as '*caveat emptor'* means 'buyer be aware'. Generally, buyer is expected to be careful while purchasing the goods and seller is not liable for any defects in goods sold by him. This principle in basic form is embodied in section 16 that subject to provisions of Sale of Goods Act and any other law, there is no implied condition or warranty as to quality or fitness of

goods for any particular purpose. As per section 2(12), "Quality of goods" includes their state or condition.

Transfer of property as between seller and buyer - Transfer of general property is required in a sale. 'Property' means legal ownership. It is necessary to decide whether property in goods has transferred to buyer to determine rights and liabilities of buyer and seller. Generally, risk accompanies property in goods i.e. when property in goods passes, risk also passes. If property in goods has already passed on to buyer, seller cannot stop delivery of goods even if in the meanwhile buyer has become insolvent. - - - Where there is a contract for the sale of unascertained goods, no property in the goods is transferred to the buyer unless and until the goods are ascertained. [section 18].

***Property passes when intended to pass* -** Where there is a contract for the sale of specific or ascertained goods the property in them is transferred to the buyer at such time as the parties to the contract intend it to be transferred. [section 19(1)]. For the purpose of ascertaining the intention of the parties regard shall be had to the terms of the contract, the conduct of the parties and the circumstances of the case. [section 19(2)]. Unless a different intention appears, the rules contained in sections 20 to 24 are rules for ascertaining the intention of the parties as to the time at which the property in the goods is to pass to the buyer. [section 19(3)].

Specific goods in a deliverable state **-** Where there is an unconditional contract for the sale of specific goods in a deliverable state, the property in the goods passes to the buyer when the contract is made, and it is immaterial whether the time of payment of the price or the time of delivery of the goods, or both, is postponed. [section 20].

***Delivery of goods to buyer* -** The Act makes elaborate provisions regarding delivery of goods to buyer. It is the duty of the seller to deliver the goods and of the buyer to accept and pay for them, in accordance with the terms of the contract of sale. [section 31]. Unless otherwise agreed, delivery of the goods and payment of the price are concurrent conditions, that is to say, the seller shall be ready and willing to give possession of the goods to the buyer in exchange for the price, and the buyer shall be ready and willing to pay the price in exchange for possession of the goods. [section 32]. Note that this is '*unless otherwise agreed*', i.e. buyer and seller can agree to different provisions in respect of payment and delivery.

Acceptance of goods by buyer - Contract of Sale is completed not by mere delivery of goods but by acceptance of goods by buyer. 'Acceptance' does not mean mere receipt of goods. It means checking the goods to ascertain whether they are as per contract. Where goods are delivered to the buyer which he has not previously examined, he is not deemed to have accepted them unless and until he has had a reasonable opportunity of examining them for the purpose of ascertaining whether they are in conformity with the contract. [section 41(1)]. - - Unless otherwise agreed, when the seller tenders delivery of goods to the buyer, he is bound, on request, to afford the buyer a reasonable opportunity of examining the goods for the purpose of ascertaining whether they are in conformity with the contract. [section 41(2)].

Buyer's and Seller's duties - The Act casts various duties and grants certain rights on both buyer and seller.

***Rights of unpaid seller against the goods* - A**fter goods are sold and property is transferred to buyer, the only remedy with seller is to approach Court, if the buyer does not pay. Seller has no right to take forceful possession of goods from buyer, once property in goods is transferred to him. However, the Act gives some rights to seller if his dues are not paid.

***Suits for breach of the contract* -** Unpaid seller can exercise his rights to the extent explained above. In addition, seller can exercise following rights in case of breach of contract. Buyer has also rights in case of breach of contract.

Measure for compensation and damages – The Sale of Goods Act does not specify how to measure damages. However, since the Act is complimentary to Contract Act, measure of compensation and damages will be as provided in sections 73 and 74 of Contract Act.

2.6.3 Trade Marks Act, 1999

A 'trade mark' is a very important and valuable asset of a company in a market oriented economy. The Act is designed to protect this valuable property. Customers identify a product by its trade mark. Value and importance of trade mark increases as business grows. Trade Marks Act, 1999 is enacted (in place of earlier 1958 law) with an intention to protect rights of trade marks of business. It is a self-contained and comprehensive code to deal with both the civil and criminal law relating to trade and merchandise marks. Procedures and forms are prescribed in Trade Mark Rules, 2002.

The 1999 Act has not yet been made effective.

***Trade Mark under Common law as well as Trade Mark Act* -** Protection to Trade Marks was first introduced in India in 1940. Prior to that, the law relating to trade mark was based on common law. At common law, right to property in trade mark was in the nature of monopoly enabling the holder of the said right to restrain others from using the trade mark. The trade mark had to be distinctive.

After passing of the Act, registration of trade mark is provided. However, registration of trade mark is not compulsory.

***What is a 'Trade mark'* -** Trade mark means a mark capable of being represented graphically and which is capable of distinguishing the goods or services of one person from those of others and may include shape of goods, their packaging and combination of colours and (i) in relation to chapter XII (other than section 107), a registered trade mark or a mark used in relation to goods or services for the purpose of indicating or so as to indicate a connection in the course of trade between the goods or services, as the case may be, and some person having the right as proprietor to use the trade mark. (ii) in relation to other provisions of the Act, a mark used or proposed to be used in relation to goods or services for the purpose of indicating or so as to indicate a connection in the course of trade between the goods or services, as the case may be, and some person having the right, either as proprietor or by way of permitted user, to use the mark, whether with or without any indication of the identity of that person (i.e. proprietor or registered user). It also includes 'certification trade mark' or 'collective mark. [section 2(1)(zb)].

Mark can be in respect of goods or services. It should be capable of distinguishing the goods or services of one person from those of others. The mark should indicate a connection in the course of trade between the goods or services and some person having the right to use the mark.

USE IN COURSE OF TRADE - If mark is not used 'in course of trade', the protection is not available. e.g. 'Red Cross' or 'Ashok Pillar' is not used in course of trade. It cannot be a 'trade mark', though protection may be available under some other law.

CAPABLE OF BEING REPRESENTED GRAPHICALLY - Major requirement is that the mark should be capable of being represented graphically. Trade mark may be (a) letter mark - e.g. IBM, Coca Cola etc. (b) Symbol mark - The symbol mark may

be (i) brand name identifying the product or (ii) Logo- visual depiction of the company and it identifies the company. e.g. Maharaja of Air India.

Even shape of goods their packaging and combination of colours can be a 'trade mark'. e.g. liquor bottle packed in a fancy size bottle.

What is 'Mark' - Mark includes a device, brand, heading, label, ticket, name, signature, word, letter, numeral, packaging or combination of colours or any combination thereof [section 2(1)(*m*)].

Registration of trade mark **-** Registration of trade mark is not mandatory, though highly desirable when stakes are high. The trade marks are to be registered with Controller General of Patents, Designs and Trade Marks who will be Registrar for purposes of this Act. [section 3(1)]. Trade Mark Registry has been established u/s 5(1) of the Act. Its offices can be established at different places. Register of trade Marks will be maintained at Head Office. The register can be maintained in electronic form. Copy of Register will be maintained at each branch office of Registrar. [section 6].

Registration does not confer absolute right **-** Registration of trade mark does not confer absolute rights on the owner. The registration of trade mark under section 28(1) is subject to other provisions of the Act. Registration of Trade Mark does not confer any new right to the mark claimed or any greater right than that already existed. Thus, even if a trade mark is registered, a 'passing off' action can be initiated against the person who has registered the trade mark.

TRADE MARK HAS TO BE DISTINCTIVE **-** Trade mark should be such as to distinguish the goods of owner of trade mark from goods of other persons.

Registration in case of honest concurrent use - It may happen that there is honest concurrent use of identical or similar trade mark by different proprietors. In such cases, Registrar can grant registration to both, subject to conditions and limitations as may be prescribed by Registrar. This can be done even if one mark was already registered. [section 12]

Foreign Trade marks not registered in India also protected - Foreign Trade marks like McDonalds, Whirlpool etc. have gained international recognition. In view of this, such trade marks can get protection in India under 'passing off' action, even if the trade marks are not registered in India. This is so even if the trade marks do not have any significant presence in India.

Rights conferred by Registration **-** Registration, if valid, grants exclusive right to use of trade mark to the proprietor in relation to goods or services in respect of which the trade mark is registered,, subject to conditions and limitations prescribed, if any, and subject to other provisions of thee Act. [section 28(1)]. In case same or similar trade mark is registered in name of more than one proprietors, they do not have any right against each other, but have equal rights against third persons. [section 28(3)]. - - The registration and its assignments and transmissions are *prima facie* evidence of its validity in any legal proceedings [section 31(1)].

Infringement of Trade Mark - A registered trade mark is 'infringed' when a person other than registered proprietor or a person using by way of permitted use, uses in course of trade, in following cases -

USE DECEPTIVELY SIMILAR MARK - Use of a mark which is identical with or deceptively similar to trade mark in relation to goods or services in respect of which the trade mark is registered and in such a manner as to render the use of the mark likely to be taken as being used as a trade mark. [section 29(1)].

LIKELY TO CAUSE CONFUSION BECAUSE OF IDENTITY/SIMILARITY - Use which, because of identity or similarity with registered trade mark and identity or similarity of goods or services covered by registered trade mark, is likely to cause confusion on the part of public. [section 29(2)].

USE EVEN ON DISSIMILAR GOODS - Use of identical or similar registered trade mark on goods which are not similar, if the mark has reputation in India and use of the mark without due cause is taking undue advantage or is detrimental to the distinctive character or repute of the registered trade mark. [section 29(4)].

USE AS TRADE NAME - Use of registered trade mark as a trade name or name of business concern or part of name of his business concern dealing in goods or services in respect of which the trade mark is registered. [section 29(5)].

APPLYING TRADE NAME ON LABELS OR PACKING GOODS - Unauthorised use the trade mark on material intended to be used for labeling or packing of goods, as a business paper or for advertising goods or services. [section 29(7)]

USE IN ADVERTISING - Use in advertisement, taking unfair advantage or is detrimental to its distinctive character or is against reputation of the trade mark. [section 29(8)].

Meaning of 'deceptively similar' - A mark shall be deemed to be 'deceptively similar' to another mark if it so nearly resembles that other mark as to be likely to deceive or cause confusion. [section 2(1)(h)].

Assignment, transmission and registered user - A trade mark can be assigned or transmitted. A registered trade mark can be assigned by registered proprietor to another and to give effectual receipts for any consideration for such assignment. [section 37]. Registered trade mark can be assigned or transmitted with or without goodwill of business concerned, in respect of all goods or services or of only some of the goods or services. [section 38]. An unregistered trade mark can also be assigned or transmitted with or without goodwill of business concerned [section 39]. Assignment or transmission shall be registered with registrar. [section 45(1)].

Appellate Board - An 'Intellectual Property Appellate Board' shall be established by Central Government. [section 83]. The Board will exercise powers which were exercised by High Court under 1958 Act. Matters presently pending in High Court will also be transferred to the Board. [section 100]. [However, matters relating to infringement, passing off, offenses and penalties will continue to District Court/Magistrate only as at present]

Infringement -Falsifying trade mark and falsely applying trade mark is a criminal offense for which punishment can be imposed by criminal courts. In addition, suit for infringement or passing off can be filed by aggrieved party. It is a civil action. The suit is required to be instituted before District Court. [section 134(1)].

Distinction between Infringement and passing off - Unauthorised use of registered trade mark is 'infringement of trade mark'. Damages can be claimed under common law also, even when trade mark is not registered. This is called '*passing off*' action. - - Thus, in India, trade mark protection is available both under the statute law and the common law.

2.6.4 Consumer Protection Act

`Consumer Protection Act can be described as common man's Civil Court and MRTP Act for the poor. The Act is designed to make available cheap and quick remedy to a small consumer. The Act was passed in 1986 and was made effective in 1987. Amendments were made in 1991 to provide for situations of absence of President of Forum. Major changes were made in 1993 (effective from 18-6-1993).
- - On getting further experience of implementation of the Act, substantial changes have been made by Amendment Act, 2002. Major changes made in the Amendment

Act are - * Enhancement in monetary limit of District Forum from Rs 5 lakhs to 20 lakhs and of State Commission from Rs 20 lakhs to Rs one crore * Payment of fees for filing complaint/appeal * Complaint/appeal will have to be admitted first * Reason to be recorded if decision not given within specified time * Cost of adjournment can be imposed * Interim orders can be passed * In absence of President, senior most member can discharge functions of President * Pre-deposit of certain amount before appeal is entertained * Notice can be sent by Fax/courier. ***The amendments have been made effective from 15-3-2003.***

Procedure under CPA - Section 12(1) provides that a complaint in relation to any goods sold or delivered or to be sold or delivered or any service provided or agreed to be provided may be filed with consumer forum.

The Act envisages setting up of 'Consumer Disputes Redressal Agency' at local, i.e., district level, state level and national (Central) level. District Forum has jurisdiction to decide consumer disputes where value of goods or services and the compensation claimed does not exceed Rs. 20 lakhs. State Commission has jurisdiction to decide the cases where value of goods and services plus compensation is over Rs. 20 lakhs but not over Rs. 100 lakhs. In addition, it decides appeals filed against order of District Forum. National Commission (HQ at New Delhi) has original jurisdiction where matter is over Rs. 100 lakhs. It also has appellate jurisdiction over State Commission. Appeal against order of State Commission can be filed only in case of original order by State Commission i.e. when matter was over Rs. 20 lakhs. No appeal can be filed to National Commission in case where State Commission has passed order in appeal against original order of District Forum.

Appeal against order of National Commission lies with Supreme Court only in matters where it exercises original jurisdiction, i.e., when matter is over Rs. 100 lakhs. There is no provision of appeal in cases where National Commission decides under its appellate jurisdiction, i.e., when it decides appeal against order of State Commission.

Thus, in all cases, only one appeal has been provided.[However, revision petition to National Commission, which is second appeal by back door, can be filed].

Complaint can be filed by a consumer, a voluntary consumer association or Central/State Government. Class Action i.e., some consumers filing complaint on

behalf of many consumers is also permitted. Complaint can be filed against (*a*) deficiency in goods or service (*b*) unfair trade practice or restrictive trade practice (c) charging of higher prices (d) Supplying hazardous goods or services. Fees are required to be paid along with the complaint. Complaint must be filed within two years from 'cause of action'. This period can be extended on showing sufficient cause. Appeal against order of District Forum/State Commission/National Commission must be filed within 30 days from date of order. Penalty upto Rs. 10,000 can be imposed on a complainant, if it is found that he has made frivolous (bogus) complaint. Persons not complying with order of redressal authorities can be punished with imprisonment upto three years and/or fine upto Rs. 10,000.

Provisions are made for enforcement of order and imposition of penalty in case order of consumer forum is disobeyed.

Complaint to consumer forum - Section 12(1) provides that a complaint in relation to any goods sold or delivered or to be sold or delivered or any service provided or agreed to be provided may be filed with consumer forum.

District, State Commission and National Commission are consumer forums, termed as Consumer Dispute Redressal Agencies. It is necessary to understand meaning of 'complaint' and who can file the same.

Defect - The word 'defect' means any fault, imperfection or shortcoming in the quality, quantity potency, purity or standard that is required to be maintained by or under any law for the time being in force or under any contract, express or implied, or as is claimed by the trader in any manner whatsoever in relation to any goods (Section 2(1)(*f*) of CPA).

Consumer Dispute - 'Consumer Dispute' means a dispute where the person against whom a complaint has been made, denies or disputes the allegations contained in the complaint [section 2(1)(*e*)]. - - Obviously, if the person against whom complaint is made agrees to the complaint, there is no 'consumer dispute'.

Who is 'Complainant' - Section 2(1)(*b*) of CPA defines that "Complainant" means (*i*) a consumer; or (*ii*) any voluntary consumer association registered under the Companies Act, or under any other law for the time being in force; or (*iii*) the Central Government or any State Government, who or which makes a complaint or (*iv*) One or more consumers, where there are numerous consumers having the same interest or *(v)* in case of death of a consumer, his legal heir or representative; - - who or which makes a complaint.

Exclusion if goods or services for Commercial purpose - A person who buys goods for resale or commercial purposes or avails services for commercial purposes is specifically excluded from definition of 'consumer'.

Trader - Complaint can be lodged against a trader in case of goods and against service provider in case of services. 'Trader' includes manufacturer.

***Deficiency in service* -** Complaint can be lodged against service provider if there is deficiency in service, or if he charges higher prices or provides services which are hazardous or where service provider follows unfair or restrictive trade practice.

Deficiency - 'Deficiency' means any fault, imperfection or shortcoming in the quality, quantity, potency, purity or standard, which is required to be maintained by or under any law for the time being in force or has been undertaken to be performed by a person in pursuance of a contract or otherwise in relation to any service. [section 2(1)(*g*) of CPA].

Restrictive and Unfair Trade Practices - Consumer Protection Act makes specific provisions in respect of Restrictive Trade Practices (RTP) and Unfair trade Practices (UTP).

***Restrictive Trade Practice* -** Section 2(1)(nnn) of CPA [As amended by Amendment Act, 2002] define Restrictive Trade Practice ('RTP') as one which tends to bring about manipulation of price or its conditions of delivery or to affect flow of supplies in the market relating to goods or services in such a manner as to impose on the consumers unjustified costs or restrictions and shall include— *(*a*)* delay beyond the period agreed to by a trader in supply of such goods or in providing the services which has led or is likely to lead to rise in the price; (b) any trade practice which requires a consumer to buy, hire or avail of any goods or, as the case may be, services as condition precedent to buying, hiring or availing of other goods or services.

***Unfair Trade Practice* -** Unfair Trade Practice is defined under section 2(1)(*r*) of CP Act. "Unfair trade practice" means a trade practice which, for the purpose of promoting the sale, use or supply of any goods or for the provision of any service, adopts any unfair method or unfair or deceptive practice.

2.6.5 Copyright Act, 1957

Copyright is right of artist, author, producer of films etc. who have created a work by use of their artistic skills. On the other hand, Patents Act, 1970 is designed to protect inventions in respect of manufacture, machine or process of

manufacture. Copyright Act has provisions to protect copyrights of foreign work also. This Act has attained special significance in view of GATT agreement. Under this international agreement, all signatory nations have to take steps to protect intellectual property rights (IPRs). It may be noted that registration of patent is compulsory, while registration of copyright or trade mark is optional. Rights in a patent can be availed only if it is registered, but copyrights or rights to trade mark are available even if the work is not registered.

Copyright protection is limited to an author's particular expression of idea, process and concept in a tangible medium. However, the law permits fair use.

Copyright is only in expression of an idea. There is no copyright in an idea. Copyright protects skill, labour and capital employed by the author. Its object is to protect the writer and author from the unlawful reproduction, plagiarism, piracy, copying and imitation. Thus, copyright is negative in nature. It is not a right in novelty of ideas.

Works in which copyright subsists - Section 13(1) of Copyright Act provides that copyright subsists in (*a*) original literary, dramatic, musical and artistic works (*b*) cinematograph films and (*c*) sound recording.

Artistic work - 'Artistic Work' means (*i*) a painting, sculpture, a drawing (including a diagram, map, chart or plan), an engraving or photograph. It does not matter whether or not any such work possesses artistic quality and (*ii*) work of architecture [section 2(*c*)]. 'Work of Architecture' means any building or structure having an artistic character or design, or any model for such building or structure [section 2(*b*)]. Note that a trade mark designed in an artistic way can be protected under Trade Mark Act (as Trade Mark) as well as under Copyright Act (as artistic work).

Dramatic work - 'Dramatic Work' includes any piece for recitation, choreographic work or entertainment in dumb show, the scenic arrangement or acting form of which is fixed in writing or otherwise; but does not include a cinematograph film.

Literary Work - The term 'Literary Work' includes computer programmes, tables and compilations including computer databases [section 2(o)].

Computer programme - It means set of instructions expressed in words, codes, schemes or in any other form including a machine readable medium capable of causing computer to perform a particular task or achieve a particular result [section 2(*ffc*)]. Computer includes any electronic or similar device having information processing capabilities [section 2(*ffb*)].

Musical work - 'Musical work' means a work consisting of music and includes any graphical notation of such work, but does not include any words or any action intended to be sung, spoken or performed with the music [section 2(p)]. Composer means a person who composes the work whether or not it is recorded in form of graphical notation [section 2(*ffa*)].

Rights of a copyright owner - As per section 14, Copyright means exclusive right to do or authorise doing any of the following acts in respect of a work or any substantial part thereof (this right is subject to provisions of the Copyright Act).

RIGHTS IN LITERARY, DRAMATIC OR MUSICAL WORK - (*i*) To reproduce the work in any material form including the storing of it in any medium by electronic means (*ii*) to issue copies of work to the public - this clause does not apply to copies which are already in circulation (*iii*) to perform work in public or communicate to public (*iv*) to make any cinematograph film or sound recording (*v*) to make translation (*vi*) to make adaptation of work (*vii*) to do, in relation to translation or an adaptation of work, any of the aforesaid acts mentioned in clause (*i*) to clause (*vi*).

RIGHTS IN COMPUTER PROGRAMME - (*i*) To do any of the acts specified above in relation to literary work (*ii*) to sell or give on commercial rental or offer to sale or for commercial rental any copy of the computer programme. However, such 'commercial rental' does not apply in respect of computer programmes where the programme itself is not the essential object of the rental.]. [proviso to section 14(b)(ii)]

RIGHTS IN ARTISTIC WORK - (*i*) to reproduce in any material form including depiction in two dimensions from three dimensions or *vice versa* (*ii*) to communicate work to public (*iii*) to issue copies of work to the public which are not already in circulation (*iv*) to include the work in any cinematograph film (*v*) to make any adaptation of the work (*vi*) to do in relation to an adaptation of the work, any of the acts specified in clause (*i*) to (*iv*) above.

RIGHTS IN CINEMATOGRAPH FILM - (*i*) To make a copy of the film, including a photograph of any image forming part thereof (*ii*) to sell or give on hire of offer for sale or hire, any copy of the film. It does not matter whether or not such copy was sold or given on hire on earlier occasions. (*iii*) to communicate the work to public.

RIGHTS IN SOUND RECORDING - (*i*) To make any other sound recording embodying it (*ii*) to sell or give on hire of offer for sale or hire, any copy of the film. It does not matter whether or not such copy was sold or given on hire on earlier occasions (*iii*) to communicate the sound recording to public.

Ownership of Copyright - Normally, author of work is the first owner (section 17). Author means (*a*) author of literary or dramatic work (*b*) composer of musical work (*c*) artist of artistic work (*d*) person taking the photograph (*e*) producer of cinematographic film or sound recording [section 2(*d*)]. Right of author is subject to some limitations.

Assignment of Copyright - The owner of copyright can assign the copyright to a work. Such assignment can be partial or full or subject to limitations and for limited term or full term. Even rights of future work can be assigned, but the assignment becomes effective only when the work comes into existence. [Some leading and popular authors sell their work at fat price even before it is complete.] After assignment, the assignee gets rights assigned and balance rights remain with the assignor (section 18).

Term of copyright - Normal term of copyright is throughout the lifetime of author plus 60 years from beginning of calendar year next following the year in which the author dies. In case of joint authorship, the author who dies last will be considered (section 22).

Compulsory licensing - If owner does not grant permission for re-publication, performance or communication to public, Copyright Board can direct Registrar of Copyrights to grant compulsory licence to complainant on such terms and conditions as it deems fit [section 31(1)].

Registration of Copyright is optional - Copyright *may* be registered with Registrar of Copyrights (section 44). Registration is not compulsory. The register will contain details like name or title of work, name and addresses of authors, publishers and owners of copyright. Application for registration has to be made in prescribed form with fees.

Infringement of Copyright - The Act provides for remedies in case of infringement of Copyright.

Civil and Criminal Remedies under Copyright Act - Owner of copyright has civil remedies against Infringement of Copyright Offences are also punishable.

2.6.6 Designs Act, 2000

This Act was earlier known as 'Indian Patents and Designs Act, 1911'. After passing of Patents Act in 1970, the provisions in respect of patents were removed from this Act, and the Act was re-christened as 'Designs Act, 1911'. Designs Act, 2000 has been passed, and made effective from 11-5-2001.

The work in respect of registration of designs is looked after only by Designs Office located within Patents Office at Kolkata, in respect of all applicants from India.

Design as per Designs Act - Section 2(d) of Designs Act defines that 'design' means only the features of shape, configuration, pattern, ornament or composition of lines or colours applied to any article whether in two dimensional or three dimensional or in both forms, by any industrial process or means, whether manual, mechanical or chemical, separate or combined, which in the finished article appeal to and are judged solely by the eye; but does not include any mode or principle of construction of anything which is in substance a mere mechanical device, and does not include any trade mark defined in section 2(1)(v) of Trade and Merchandise Marks Act or property mark as defined in section 479 of Indian Penal Code or 'artistic work' as defined in section 2(c) of Copyright Act.

The Act covers only 'artistic designs' and not 'engineering designs'. Design cannot be registered under Trade Marks Act as well as under Designs Act.

Nature of design - Every product has a physical aspect and a psychological aspect. In consumer's mind, psychological aspects tend to assume priority. Design creates a favourable impression on customer, which induces him to buy the goods. Thus, design covers whole body of goods. Design must be applied to an article, has an appeal to eye and is novel and original, i.e. eye appeal is very important. Functional designs are not registrable under Designs Act. Design registration is obtained for novelty in the external appearance only. The registrable design is not the article itself, but a feature, an idea or characteristic look applied to an article. e.g. novel shape of a pager or cellular phone. The design can be registered only with respect to an article or set of articles. The registrable design must be capable of being applied to an article by an industrial process or means. The article must be movable. Thus, design of buildings, permanent structures and naturally occurring unprocessed objects are not registrable.

Design can be of some article like motor car, wash basin, shoe etc. It should have individuality of appearance.

Protection to Designs - The 'copyright protection' to the design is for ten years from date of application of registration of a design. This can be extended for one further term of five years each (i.e. total fifteen years), if application is made and necessary fees are paid. [section 11]. 'Copyright' means the exclusive right to apply a design to any class in which the design is registered. [section 2(c)].

Design is registrable only if it is new, novel and not published before. If it is published before, the novelty is lost. [section 19]. If the designer has to publish it in exhibition, fashion show etc., he has to inform Controller of Patents (in Design office) in advance. Application should be made within 6 months from date of exhibition. Otherwise, the designer may lose his right for registration of design. [section 21].

2.6.7 Copyright Act, 1957

Copyright is right of artist, author, producer of films etc. who have created a work by use of their artistic skills. On the other hand, Patents Act, 1970 is designed to protect inventions in respect of manufacture, machine or process of manufacture. Copyright Act has provisions to protect copyrights of foreign work also. This Act has attained special significance in view of GATT agreement. Under this international agreement, all signatory nations have to take steps to protect intellectual property rights (IPRs). It may be noted that registration of patent is compulsory, while registration of copyright or trade mark is optional. Rights in a patent can be availed only if it is registered, but copyrights or rights to trade mark are available even if the work is not registered.

Copyright protection is limited to an author's particular expression of idea, process and concept in a tangible medium. However, the law permits fair use.

Copyright is only in expression of an idea. There is no copyright in an idea. Copyright protects skill, labour and capital employed by the author. Its object is to protect the writer and author from the unlawful reproduction, plagiarism, piracy, copying and imitation. Thus, copyright is negative in nature. It is not a right in novelty of ideas.

Works in which copyright subsists - Section 13(1) of Copyright Act provides that copyright subsists in (*a*) original literary, dramatic, musical and artistic works (*b*) cinematograph films and (*c*) sound recording.

Artistic work - 'Artistic Work' means (*i*) a painting, sculpture, a drawing (including a diagram, map, chart or plan), an engraving or photograph. It does not matter whether or not any such work possesses artistic quality and (*ii*) work of architecture [section 2(*c*)]. 'Work of Architecture' means any building or structure having an artistic character or design, or any model for such building or structure [section 2(*b*)]. Note that a trade mark designed in an artistic way can be protected under Trade Mark Act (as Trade Mark) as well as under Copyright Act (as artistic work).

Dramatic work - 'Dramatic Work' includes any piece for recitation, choreographic work or entertainment in dumb show, the scenic arrangement or acting form of which is fixed in writing or otherwise; but does not include a cinematograph film.

Literary Work - The term 'Literary Work' includes computer programmes, tables and compilations including computer databases [section 2(o)].

Computer programme - It means set of instructions expressed in words, codes, schemes or in any other form including a machine readable medium capable of causing computer to perform a particular task or achieve a particular result [section 2(*ffc*)]. Computer includes any electronic or similar device having information processing capabilities [section 2(*ffb*)].

Musical work - 'Musical work' means a work consisting of music and includes any graphical notation of such work, but does not include any words or any action intended to be sung, spoken or performed with the music [section 2(p)]. Composer means a person who composes the work whether or not it is recorded in form of graphical notation [section 2(*ffa*)].

Rights of a copyright owner - As per section 14, Copyright means exclusive right to do or authorise doing any of the following acts in respect of a work or any substantial part thereof (this right is subject to provisions of the Copyright Act).

RIGHTS IN LITERARY, DRAMATIC OR MUSICAL WORK - (*i*) To reproduce the work in any material form including the storing of it in any medium by electronic means (*ii*) to issue copies of work to the public - this clause does not apply to copies which are already in circulation (*iii*) to perform work in public or communicate to public (*iv*) to make any cinematograph film or sound recording (*v*) to make translation (*vi*) to make adaptation of work (*vii*) to do, in relation to translation or an adaptation of work, any of the aforesaid acts mentioned in clause (*i*) to clause (*vi*).

RIGHTS IN COMPUTER PROGRAMME - (*i*) To do any of the acts specified above in relation to literary work (*ii*) to sell or give on commercial rental or offer to sale or for commercial rental any copy of the computer programme. However, such 'commercial rental' does not apply in respect of computer programmes where the programme itself is not the essential object of the rental.]. [proviso to section 14(b)(ii)]

RIGHTS IN ARTISTIC WORK - (*i*) to reproduce in any material form including depiction in two dimensions from three dimensions or *vice versa* (*ii*) to communicate work to public (*iii*) to issue copies of work to the public which are not already in circulation (*iv*) to include the work in any cinematograph film (*v*) to make any adaptation of the work (*vi*) to do in relation to an adaptation of the work, any of the acts specified in clause (*i*) to (*iv*) above.

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Civil and Criminal Remedies under Copyright Act - Owner of copyright has civil remedies against Infringement of Copyright Offences are also punishable.

Self-exercise

1. How legal system evolves basic frame work for market; what are major provisions of contract act, which play a part in marketing program.
2. How patents , copyrights and design protection is creating the basic structure for modern marketing.
3. What is consumer protection act. Why the consumer himself needs to be aware.
4. How companies exploit the potential of competion act and use its provision to gain an advantage
5. Determine how companies get affected by provisions of Sale of Goods Act, 1930 and Trade Marks Act , 1999.

Type Setting :

Department of Distance Education, Punjabi University, Patiala.

DEPARTMENT OF DISTANCE EDUCATION
PUNJABI UNIVERSITY, PATIALA

STUDENT'S RESPONSE-SHEET

Roll No..................

Paper : BBA-303

Class : BBA Part-II (Semester-III)

Principles of Marketing Management

Response Sheet No. 2

Date of receipt of lesson....................

Marks obtained................

Date & Signature of the Examiner.........................

Date of submission of Response-Sheet by the student................................

No. of pages attached.............................

Name & address of the student below in BLOCK LETTERS:

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Date of receipt in the Department....................

Time : 1:30 Hour **Max Marks : 40**

Attempt any one question from Section A and any five questions from Section B.

Sec.-A

Long Questions :

1. Explain product life cycle in detail ?
2. What are the factors to consider when determining price of good ?
3. What are the channel intermediaries and explain their functions ?
4. Explain the role of Promotion mix in the sale of goods.

Sec.-B

Short Questions :

1. What are 4Ps of Marketing ?
2. Level of Product
3. Going rate Pricing
4. Loss leader pricing
5. Distribution Management
6. Communication
7. Types of advertising
8. Indian Contract Act, 1872

Please send this Response-Sheet along with your answers to : The Deputy Registrar, Department of Distance Education, Punjabi University, Patiala-147002.

Mandatory Student Feedback Form

https://forms.gle/KS5CLhvpwrpgjwN98

Note: Students, kindly click this google form link, and fill this feedback form once.