
UNIT 4 PLANNING MARKETING MIX

Objectives

The objectives of this unit are to help you to understand the:

- **significance** of various elements of the marketing mix activities,
- **importance** of the marketing mix in marketing planning,
- **relationship** between marketing mix and marketing strategy,
- concept of optimum marketing mix, and
- some specific **applications** in planning the marketing mix.

Structure

- 4.1 Introduction
- 4.2 The Elements of the Marketing Mix
- 4.3 The Place of the Marketing Mix in Marketing Planning
- 4.4 The Relationship between Marketing Mix and Marketing Strategy
- 4.5 The Concept of Optimum Marketing Mix
- 4.6 Marketing Mix-Some Specific Situations
- 4.7 Summary
- 4.8 Key Words
- 4.9 Self-assessment Test
- 4.10 Further Readings

4.1 INTRODUCTION

As you will remember, the four basic elements viz., product, price, promotion and the place constitute the marketing mix. You will also recollect that these four elements called 4Ps are used for grouping different marketing activities under these heads. Therefore, the marketing mix consists of the following four major activities usually referred to as elements of Marketing mix.

1. **Product:** activities relating to the product, service or idea to be offered.
2. **Price:** activities relating to the price to be charged for the product, service or idea.
3. **Promotion:** activities relating to promotion (advertising, personal selling, sales promotion and publicity, called promotional mix) of the product, service or idea.
4. **Place:** activities relating to distribution of the product, service or idea (physical distribution and channels of distribution).

Sometimes marketing research-the systematic gathering of information to solve marketing problems, is also included in marketing mix.

McCarthy proposed this four-factor classification of different marketing activities. Please note that this is not the only way of classifying marketing activities but certainly the one which has caught our imagination most. There are two other classifications which are worth mentioning here. One of them is by Frey (1961). According to him all marketing decision variables (i.e., activities) could be categorised into two factors, viz., the offering consisting of product, packaging, brand, price and service and the methods and tools comprising distribution channels, personal selling, advertising, sales promotion and publicity. The other is by Lazer and Kelly (1962) who proposed a three-factor classification, viz., goods and service mix, distribution mix, and communication mix.

We will, however, use McCarthy's 4Ps approach in our discussion of the marketing mix.



Activity A

You know that there are several marketing activities which are grouped under each one of the 4Ps.

Product	Price	Promotion	Place or Distribution
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(Please do not read ahead till you have answered this question.)

4.2 THE ELEMENTS OF THE MARKETING MIX

The subsequent four sub-sections describe each of these four activities or Ps in greater detail. Let us begin with product activities.

Product Activities

A product, service or idea, may be defined as something which is given to consumers in exchange for a price. Activities related to a product, service or idea include the following:

- quality
- features
- style
- brand name
- packaging
- sizes
- services
- warranties
- returns

The following are some examples of product related activities:

- Titan, a Tata company, launches Titan **Quartz Watches** for the Indian Market.
- Atash Leasing and Industries Ltd's Frooti Plant in Noida, Uttar Pradesh, launches a new era of **fruit drinks in Tetra Brik cartons** for Delhi, U.P. and Rajasthan.
- The Bank of Bahrain and Kuwait announces the opening of its new totally computerised **branch office** in Bombay.
- Housing Development Finance Corporation introduces the **Home Savings Plan** which starts as a saving and ends as a low interest housing loan.
- Dunlop introduces the concepts of **Tyre Service Centres**.
- **Avanti Garelli highlights the features** of Avanti Garelli mopeds in an attempt to attract the attention of customers:
 - "A phenomenal certified 81 kms per litre fuel efficiency under test conditions"
 - "Fully automatic gears"
 - "Powerful enough to carry two comfortably"
 - "Low maintenance"
 - "Dependable All-India Service network"
 - "Study, built to last years"
 - "International Styling"
 - "In technical collaboration with Agrati Garelli S.P.A. of Italy, the acknowledged leader in the world of mopeds".



Question 1

Are product related activities usually directed at a specific group of consumers (called target consumers or market) rather than to consumers at large?

.....

(Answer: Usually directed at a specific group of consumers)

Question 2

In that case which one would you identify first, the target market or the product/service/idea.

.....

(Answer: The target market)

Do you recall, we followed this approach in planning the marketing mix for 'a perfume' in Unit 1

Research and experience in the market place have indicated that a marketer should treat the product as a 'bundle of satisfaction' offered to consumers rather than as a physical item. This is so because consumers really seek satisfaction of their needs and desires rather than physical products.

To illustrate, the purchaser of a refrigerator wants trouble-free operation, space, convenience, an aesthetic design rather than just a refrigerator cabinet and motor. The buyer of a wristwatch, for example, wants accurate timing, reliability, status, attractive design, and no maintenance, not merely pieces of metal, plastic, and glass. Marketers who view the products as bundles of satisfaction are able to fulfill their mission of serving the consumer, and can benefit accordingly through increased sales.

Activity B

List the product attributes or bundle of satisfaction that a purchaser would want in the case of the following products:

- a) color film
- b) scooter or two-wheeler
- c) exhaust fan
- d) personal computer

.....

Pricing Activities

You can define price as the amount of money that consumers must pay in exchange for the product, service or idea. Generally, marketers consider the following factors in setting prices:

- **Target customers:** how much they will buy at various prices, in other words, price elasticity of demand.
- **Cost:** how much it costs to produce and market the product, i.e., both production and distribution costs.
- **Competition:** severe competition may indicate a lower price than when there is monopoly or little competition.
- **The law:** government authorities place numerous restrictions on pricing activities.
- **Social responsibility:** pricing affects many parties, including employees, shareholders and the public at large. These should be considered in pricing.



There are other factors as well, besides the ones listed above which a marketer has to consider. For example, a television set manufacturer may have to determine prices for the distributor, the dealer, and the ultimate consumer. Different varieties of the product may have varying prices, e.g., a 'deluxe' model may be priced higher than a very basic model. Similarly, there are other factors which a marketer has to consider like the granting of discounts and allowances or location of the customer in determining prices. These are significant questions, and how they are dealt with can make a real difference in the sales volume of the organisation.

Promotional Activities

Promotional activities consist of various means of communicating persuasively with the target audience. The important promotional methods are:

- **Advertising** - where an identified sponsor pays media (such as Doordarshan's National Network) to transmit messages to target consumers.
- **Personal selling** - where sales representatives employed by the firm engage in interpersonal communications with individual consumers and prospective customers.
- **Sales promotion** - where the marketer utilises displays, demonstrations, premiums, contests or similar devices to supplement advertising and personal selling.
- **Publicity and public relations** - where both publicity and public relations are used to stimulate supportive news items about the firm and its products that have greater credibility with the public than advertising.

The general role of publicity is similar to advertising, but public relations (PR) usually addresses itself to a wider public than the firm's customers. In PR there is recognition that all actions taken by the firm communicate something to someone.

The press release, news conference and the offer of some exclusive feature are typical ways of seeking publicity. The weakness of both PR and publicity is that the firm does not pay the piper and so does not call the tune.

Of particular importance is the composition of the **promotion mix**. The promotion mix is the particular combination of advertising, personal selling and sales promotion that is used in communicating with consumers. Generally, advertising is employed to reach large groups of consumers at a low price per contact. It is widely used by firms selling consumer durables as well as by selling consumption items like toiletries to serve a mass market. Personal selling has a higher cost per contact, but is an intense form of communication - consumers usually find it more difficult to ignore or refute the arguments of a sales person than the persuasive appeals of an advertisement.

Firms selling items like computers, home products, etc. utilize personal selling extensively. For example, Eureka Forbes utilizes its salesmen for door to door selling of its home-products, viz., Euroclean (the all-purpose cleaning system) and Aquaguard (on-line electronic water-purifier). Finally, sales promotion aids advertising and personal selling in achieving the communications mission, it tends to accomplish tasks the other two are not capable of attaining, but is generally supplementary to them. Sales persons demonstrating the use of particular items in stores can considerably enhance the effect of advertising upon consumers.

Like other elements of the marketing mix, promotion should be aimed at the target audience rather than at consumers at large. If target consumers are in upper-income groups, promotional messages for, say, colour television sets might highlight motives such as status and prestige associated with owning a colour television, whereas if they are in lower-income groups, the price of a model might be emphasised. If target consumers tend to be highly educated, promotion messages should be more sophisticated than when target consumers have low levels of education. Failure to consider the unique characteristics of the target consumer can result in ineffective promotional efforts.

Place or Distribution related Activities

Basically, place or distribution activities are used to transfer ownership to consumers and to place products, services and ideas at the right time and place.

Distribution is made up of two components: (1) Physical distribution, and (2) Channels of distribution.



Physical distribution consists of the activities involved in moving products or services from producer to consumer. Examples include:

1. Transportation
2. Warehousing and Storage
3. Order Processing
4. Inventory Control
5. Locations

Often, the objective of physical distribution is to move goods to consumers at minimum cost. This can frequently be accomplished through cost trade-offs, as and when an organisation shifts from railways to air transportation, thereby increasing transportation costs but possibly decreasing total costs because of substantial decline in the cost of inventory. Sometimes, management considers the cost of lost sales in its cost trade-off analysis. The cost of lost sales is that cost which results when goods are not available at the time, place, and in the condition desired by consumers. Thus, if air freight moves goods to consumers faster than trucks, the cost of lost sales can be reduced.

The physical distribution network should be oriented towards the needs and desires of target consumers. Thus, the target consumers for cut flowers may require very rapid, fresh and damage-free transportation, thereby necessitating air freighting. (e.g., sending roses from Bangalore or Nasik to Bombay by air). On the other hand, target consumers of an item like steel or cement may look for reliability in delivery schedules but relatively' unconcerned with speed of delivery suggesting the use of rail transportation.

The channels of distribution are those routes through which the ownership of goods, services and ideas flows on the way from producer to consumer. Thus, a rather typical channel for consumer goods such as grocery items is from producer to wholesaler to retailer to ultimate consumer.

In establishing channels of distribution, the marketer decides which marketing functions are needed in order to satisfy target consumers, then determines which institutions (such as wholesalers and retailers or the manufacturer himself) can best perform these functions. Some manufacturers such as Kinetic Honda may find that independent dealers are better equipped to serve target consumers, and as a result decide to distribute their product (scooter) through dealers. Another producer such as the Hindustan, Lever may decide to move its products through a suitable permutation of clearing and forwarding agents, stockists and wholesalers depending upon the region, accessibility, time of the year, and so on. The overall objectives of such decisions is to maximise service to the consumer at a profit to the marketer.

4.3 THE PLACE OF THE MARKETING MIX IN MARKETING PLANNING

All these elements of marketing mix are arrived upon and implemented in the broad framework of a marketing plan. Therefore, to appreciate the relationship between the marketing planning process and the elements of the marketing mix, let us briefly describe the various components of a marketing plan.

A typical marketing plan has the following components:

- description of the current marketing situation, i.e., 'where we are' or situation analysis,
- identification of problems and opportunities in the situation,
- definition of objectives of the marketing plan, i.e., 'where we want to be',
- designing the marketing strategy,
- developing the marketing programme, and
- estimating the necessary appropriations, i.e., budgeting, forecasting sales and estimating cost and profit contribution.

An important point that you should remember here is that marketing planning, like any other planning process, is an iterative process and has to be done on a continuing basis. In other words, what is needed is constant monitoring, redefinition, adaptation, and re-evaluation of objectives and strategy, its implementation and control in an effort to obtain maximum payoff from ever-changing market situation.



Current Marketing Situation

What sort of data will form part of this section of the marketing plan? The data will basically relate to the market, product, competition, distribution and macro-environment. Each one of these is analysed below to give you a more detailed understanding of the type of data that will be generated.

Market Situation: data on the **target market served** like the size and growth of the market for the past several years, and customer needs, perceptions and buying behavior trends.

Product Situation: data on sales, prices, contribution margins and net profits for each major product for the past several years.

Competitive Situation: data on major competitors in respect of their size, goals, market share, product quality, marketing strategies and other relevant characteristics that are likely to help in understanding and predicting their behavior.

Distribution Situation: data on the number and value of the units sold in each distribution channel together with the changes that are taking place in the power and importance of each channel and also the changes in the trade relations mix like prices trade terms, etc. required to motivate channel members.

Macro-environment Situation: data on changing trends in respect of political/legal, technological, demographic, economic and sociocultural factors having a bearing on company's products.

Identification of Problems and Opportunities

Here the marketer has to identify the strengths and weaknesses as well as the opportunities and threats which exist in the environment in relation to the company's products. The data required to be collected in respect of the current marketing situation should help him in identifying major strengths, weaknesses, opportunities and threats.

Defining Objectives

The resulting data generated above should help the marketer in defining the main issues that will need to be addressed to in the plan.

The identification of these issues will in turn help in arriving at the decisions about the objectives. These objectives will guide the subsequent search for strategies and action programmes.

These objectives may be in terms of (a) financial objectives (long-run rate of return on investment; profits and cash-flow during the current year) and (b) Marketing objectives (sales revenue, sales volume, market share, average realised price; consumer awareness, distribution coverage, etc.) to achieve the financial objectives.

Designing the Marketing Strategy

Marketing strategy means the 'game plan' that the marketer will use in attaining the objectives of the business. In other words, it represents the broad marketing thrusts that will be used.

Kotler defines marketing strategy as follows:

Marketing strategy is the basic approach that the business unit will use to achieve its objectives and it consists of broad decisions on target markets, market positioning and mix, and marketing expenditure levels. Of course, he will have to keep in mind the expected environment and competitive conditions in determining the marketing strategy.

A marketer has a number of options available to him when he is developing a suitable marketing strategy. To illustrate, supposing the objective is to increase the sales revenue by a certain percentage during the next 12 months. Now try to think of the many different ways the marketer can achieve this objective: Some of the possible ways in which he could do so are:



- by increasing the average price of all units
- by increasing the overall sales volume
- by selling more of the higher price units.

Again each of the three objectives in turn could be achieved in a number of ways.

Take for instance the second objective, viz., the **overall sales volume**. This objective can be achieved by:

- increase in market growth
- increase in market share.

Going a step further, increased market growth can in turn be brought about in a number of ways, like

- by convincing people to consume more of the company's product
- by convincing people to replace the old models by company's new model.

By going down the path of each objective, the marketer can identify the major strategy options facing the company's product. And the formulation of marketing strategy calls for making basic choices among these strategy options.

Developing the Marketing Programme

After designing the 'game plan' or the broad marketing results, the marketer will try to develop or elaborate each element of the marketing strategy. The questions like the following will need to be answered in developing each element.

- What will be done?
- When will it be done?
- Who will do it?
- How much will it cost?

4.4 THE RELATIONSHIP BETWEEN MARKETING MIX AND MARKETING STRATEGY

If you refer to the definition of marketing strategy offered earlier in this unit, you will find that marketing mix is one of the broad decision areas of the marketing strategy. Its other decision areas relate to target markets, market positioning and marketing expenditure levels.

That is, marketing strategy is a broad concept of how resources are to be deployed to achieve market success. If you examine the content of a marketing strategy you will find that it shows how the proposed key features of the firm's offering (product, price, promotion and distribution) are intended to achieve the firm's objectives.

Marketing strategy is composed of a set of sub-strategies concerned with competition, segmentation (market positioning or market niche and target markets), pricing, promotion and distribution. How these sub-strategies are related defines the structure of the strategy and determines whether or not they form an effective plan of action. Structural criteria cover the following:

Coherence: do all the sub-strategies fit together in focusing on the market?

Consistency: are there any inconsistencies among the individual elements?

Contribution: does each sub-strategy or element of the strategy make a distinct contribution?

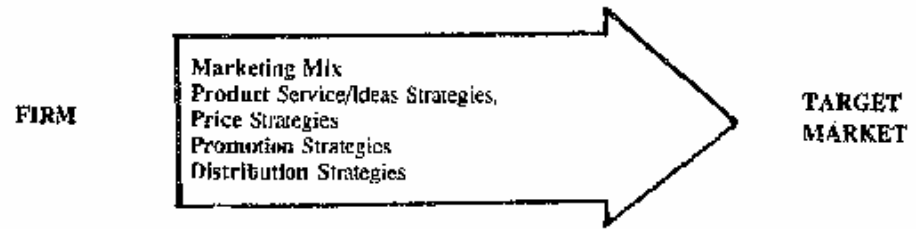
Relative significance: has the relative significance of each of the various strategies been determined?

Product, price, promotion and place or distribution are the factors that, within limits, are capable of being influenced or controlled. Marketing strategy can be viewed as reflecting a **marketing mix** of these four elements.

Therefore, marketing mix is the mixture of controllable marketing elements (activities, tools or instruments) that the firm uses to pursue the desired level of sales in the target market, diagrammatically shown in Figure I.



Figure I: The Marketing Mix



In other words, in taking marketing mix decisions or in planning the specific combination of marketing tools, the marketer should find out:

- which of the various marketing elements are most effective in the target market environment, and
- in which combination.

Question 3

An essential characteristic of an effective marketing mix is that it be closely co-ordinated.' Do you agree? Explain.

Answer: All the elements of marketing mix should work together in serving target consumers in the manner suggested by the firm's marketing strategy. Thus, if newspaper advertisements are promoting a new brand of toilet soap, the physical distribution and channel of distribution components should operate so that goods are actually available for consumer purchase as and when they are desired. If an electronic firm's sales representatives tell customers that the various calculators produced by the firm are of high quality, then product planners should take steps to ensure that this is indeed the case. Overall, the desired objective is a marketing mix made up of activities that will work together to achieve a common goal-attainment of the marketing strategy of the organization.

The Marketing Mix and Strategy Matrix

Since marketing mix decisions are part of the marketing strategy aspects, i.e., they are interdependent, the two have been combined together in the form of a matrix and shown in Figure II.

Figure II: Marketing Mix and Strategy Matrix

Marketing Mix Decisions (Support Strategies)	Target Markets (Segmentation)	Market Positioning or Niche (Competition)	Objectives (Expectations in terms of sales, market share and other performance measures)	Marketing Budgets
A Product				
B Price				
C Promotion				
D Place or Distribution				

This matrix shows the strategic aspects in the overall marketing plan, and their inter-relatedness. It also emphasizes the way in which the marketing mix decisions should be approached i.e., by combining the marketing strategy decisions with the marketing mix decisions. To help you to further understand the relationship between marketing mix and marketing strategy we are listing below some of the appropriate and matching marketing mix variables that may be decided upon in the context of marketing strategy decisions.

Product: options, models to be marketed, modifications for specific target market, if any, product simplification, invention, service and warranty system, spare parts.

Price: skimming vs. penetration, price relative to current and potential competition.



Promotion: budget, theme, media, timing. If major resources are to be committed, include plan for measurement of promotional effectiveness. Feedback from the market place, marketing research.

Distribution channels: mode of market entry. Functions to be performed by channel members. Margins, promotional allowances (if any). Short-terms vs. long-term commitments.

Specimen Marketing Strategy: HMT Tractors

HMT produces items like watches, tractors, dairy and printing machinery, dye casting and plastic injection moulding machines. Other items which are being produced are lamps, etc. Tractors were allotted to the Pinjore unit in view of its location in the natural market zone for tractors.

To supplement HMT tractor production, a second tractor assembly line for 45 HP and 59 HP tractors has been in operation since 1985 at SAS Nagar (Mohali) to meet the requirements of tractors in Punjab.

Overall Marketing Objectives and Strategy

A Marketing Objectives

- i) **Directional Mission:** Diversification of its product range to provide cushion for the cyclical variations in the machine tool market.
- ii) **Goals:** Specific goals in the next (say, 1,2,5) years for tractors are:
 - a) Sales in terms of number and value of tractors (say 10,000; Rs.50 crore)
 - b) Sustained growth in volume of (say 5%) per annum.

B Product Strategy

From assembling tractors from CKD (completely knocked down) packs with 100 per cent imported components, to fully indigenising its manufacture over a span of five to seven years through planned and systematic reduction of imported content. Later to acquire design capabilities for developing tractors of different HP.

The production of tractors began at Pinjore in June 1971 and model 2511 was fully indigenised in a short span of five years. Later, design capabilities were acquired and 35 HP and 45 HP tractors were developed. The 59 HP tractor is in advanced stage of indigenisation.

To develop research and development centre for prototype assembly, engine testing, sub-systems testing, test farms and tracks to simulate the toughest field conditions.

C Competitive Strategy

- To have the widest range of tractors and variants on its regular production schedules as a differential advantage vis-a-vis its competitors.
- Anticipations about sales that HMT will take away from different well-established manufacturers in the field including increase in market share. During 1985-86 HMT tractors turnover touched Rs. 100 crore mark as compared to 87 crore in 1984-85. Its market share was 17.6 per cent as compared to 15.18 per cent in the previous year.

Since the competitors are expected to respond through appropriate competitive strategies the company plans to develop and maintain its technological and widest range superiority.

D Segmentation Strategy

i) Customer Targets

- a) Marketing effort will be directed at Haryana, Punjab, U.P., Bihar, Rajasthan, M.P. and other states in the Western and Southern parts of the country.
- b) Variants like Rice Special, Paddy Pedlar, Forest Special and Hauler will be developed and marketed to suit different types of needs of farmers.
- c) Front and Rear Loaders, Mini Skidders and Hydrodozers will be some of the attachments that will be mounted on HMT tractors not only to cater to field operations but also for use in a variety of industrial operations.



E Support Strategies
The key elements in HMT's marketing support programme are as follows:
i) Participation in exhibitions is one important method that will be used to promote the sale of HMT tractors. (For example HMT participated in IMTEX '86 held in Bombay in 1986).
ii) Price Strategies.
iii) Distribution and Service.

Key Element in the Marketing Mix

Another point you should understand is that every market has its own logic. Its understanding in terms of the emphasis that need be placed on a particular element of the marketing mix is often a necessary condition for success. That means the key element in a particular marketing situation has to be identified.

A number of factors would determine the key element and these are:

- the product,
- the type of market (for example, whether industrial or consumer),
- stage in evolution (emerging, transition and decline stages), and
- competitive conditions.

Key elements might be advertising (promotion) in the case of analgesics, distribution in the case of petrol, pricing in the case of basic commodities and product performance in the case of machine tools.

To know the key factor in the marketing mix is crucial in drawing up a marketing strategy since it means knowing what to emphasise.

Question 3

Suggest key marketing mix element in the following cases:

- a) for tapping rural markets in the case of consumer goods
- b) for marketing consumer durable goods
- c) cosmetics and toiletries, LPG cylinders.

Suggested Answer: (a) distribution (for such costs are very much higher than urban markets) (b) promotion (c) distribution.

4.5 THE CONCEPT OF OPTIMUM MARKETING MIX

The concept of optimum marketing mix relates to the issue of dividing the marketing budget optimally over the elements of the marketing mix.

But in so doing you should remember that the components of the mix are partially substitutable for each other.

Question 4

How a company that is seeking increased sales can achieve them by substituting one element of the marketing mix for the other?

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(Suggested Answer: By lowering the price or by increasing the sales promotion/advertising budget or by increasing the sales force or by improving the availability of the product).

The challenge, however, that a marketer faces is to find the optimal marketing mix.

Assume that a marketer has identified sales promotion and advertising as the two major components of the marketing mix on which marketing budget is to be allocated. In principle, the marketing budget can be divided in a number of ways on these two elements. Associated with every possible marketing mix would be a resulting sales level.

In theory, for a given marketing budget, the money should be divided among the various marketing tools in a way that gives the same marginal profit on the marginal rupee spent on each tool. This would result in an optimum allocation of a given

marketing budget over different elements of the marketing. Such an allocation would prove to be a sales-maximising or profit-maximising marketing mix.

Question 5

In the former section you were introduced to the concept of 'key element' in the marketing mix, while in this section the concept of 'optimum marketing mix' was explained. Explain how the two concepts differ from each other.

.....

In devising optimum marketing mix it is important to know how various marketing-mix variables interact in their impact on sales/profits. Here are some examples of the assumptions made by marketing managers:

- Higher advertising expenditure result in reducing buyers' price sensitivity. The resulting inference is that a firm wishing to charge a higher price should spend more on advertising.
- Advertising expenditure have a greater sales impact on low price products than high price products.
- Higher advertising expenditures reduce the total cost of selling. The logic is that the advertising expenditures presell the customer and sales representatives can spend their time answering objections and closing the sale.
- Higher prices lead buyers to attribute higher product quality.
- Tighter credit terms require much greater selling and advertising effort to move the same volume of goods.

The question that arises is: Can we accept these relationships without any further inquiry? The answer is 'no' because while these relationships may hold true for many products, managers of other products should be cautious. That is, a clear direction for such interactions could not be predicted a priori. That is, other factors like the nature of the advertising appeal, the structure of the market, etc., would also have to be taken into consideration.

Another important point that needs to be highlighted in predicting the results of such interactions is that marketing-mix variables not only interact with each other but also with non-marketing variables in the firm.

For example, a manager cannot set the product's price and quality at any level he wishes. He has to understand that both price and product quality are affected by non-marketing variables. The non-marketing variables that will affect price, for example will be **productivity** which in turn will be affected by investment decisions and personnel policies. Similarly, product quality will be affected both by production reliability and technology which in turn would be affected by both personnel policies and research and development (R & D) investment.

The conclusion that emerges is that the marketers must not take price and product for granted. Rather they should influence those non-marketing variables that will enable the firm to reduce costs and produce higher quality products.

4.6 MARKETING MIX - SOME SPECIFIC SITUATIONS

In this section we will discuss some specific situations with regard to the development of strategies in relation to some of the elements of the marketing mix. These situations relate to marketing mix decisions with respect to new product development, stages in the life cycle of a product, and the relative role of advertising and pricing in the marketing mix.

New Product Development and Marketing Mix

The product is one component of the marketing mix and is usually the core part, so the product is developed first. However, there are occasions when the product is designed to fit



some other component of the mix. To illustrate, the product may be developed to fit a price range, an image slot or a channel. But you must not forget that the various elements of a marketing mix are conceptually interconnected to meet some want and so there must be a procedural interconnection in designing the various components.

The drawing up of a tentative marketing mix is part of any new product development programme. First let us take the element of promotion. It is a key consideration when the want is likely to be latent or passive for the majority of the members of the target market. In general terms, the motivation to buy is based preferably on some core advantage and the benefits that might be stressed in the advertising copy or sales appeal.

Activity C

Today, a number of well established companies are trying to diversify into both existing as well as new areas. New companies are also being started in new and existing fields. For example existing companies like Voltas have gone into the refrigerators business and Titan (a new company) into the business of quartz watches.

Find out three to four similar cases of diversification or entry in existing fields and study the advertisements issued by these companies and identify the critical advantage or the core benefit stressed in the advertising copy or sales appeal.

Name of Company	Name of Product	Core Benefit
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.....
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Next, we take **price** as a strategic element in new product development. Price can be important not just in terms of cost to the consumer but as contributing to the image of the product. Pricing needs to be considered in relation to both the buying inducement and the rest of the offering or mix. Although the introductory price is of immediate interest in the context of new product development, management needs to plan an overall pricing strategy that might be adopted as the market grows.

Finally, about role of **distribution** strategy in new product development. Remember, if distribution, i.e., availability in the target market cannot be assured, all else fails. The role which distribution channels are expected to play must be investigated at the earliest stage possible.

You must not, however, forget the all important fact emphasised earlier that all elements of the marketing mix, i.e., promotion, pricing and distribution strategies need to be brought together and coordinated in the overall marketing mix.

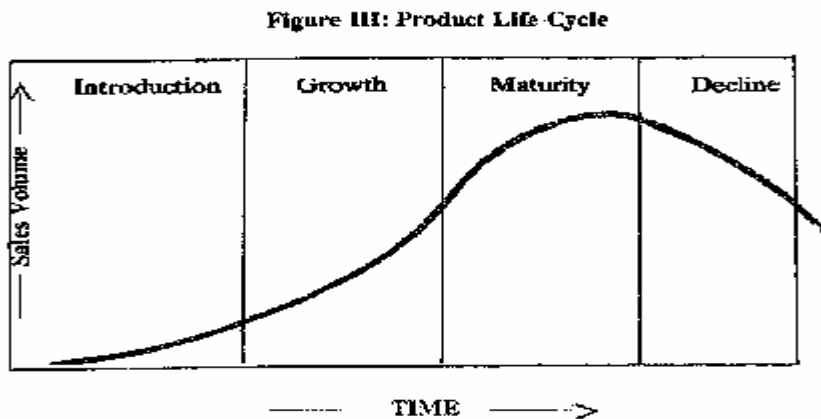
Product Life Cycle and Marketing Mix

Here we will relate the strategic aspects of the elements of the marketing mix to different stages of the product life cycle.

But before that we will explain very briefly the product life cycle (PLC) concept itself. The objective here is not to explain the concept in all its aspects but to help you to understand how the components of the marketing mix change during different phases of the life cycle curve. We will deal with PLC in Block 4.

The belief that sales of a product follow a life cycle has been around from the beginning of the twentieth century. According to this belief a product passes through a specific sequence of stages corresponding to the life phases of infancy, growth, maturity and decline. The focus in the case of products is on the shape of the sales curve. The assumption is that sales are low during the introductory stage, rapidly rising during the growth stage, reach the peak during the maturity stage and start declining during the final stage.

The figure III shows the product life cycle curve (S-shaped) of introduction, growth, maturity and decline:



Different products will take different spans of time to pass through the cycle of introduction, growth, maturity and decline. Many classes of product like light bulbs and aspirin, seem to remain indefinitely at the maturity stage, while some products quickly come and go. Further, just as countries can be at different stages in economic growth, a product can also be at the introductory stage in one country, and in maturity stage in another.

The question that arises is whether we should view the PLC concept, as a universal fact or law or as an ideal type. The answer is as an ideal type. For if it is viewed as a universal fact, every product would have to be shown to be following or to have followed the S-shaped curve, which is not there. Even one exception would disprove the universality of the concept. Therefore, it would probably be best to view it as an 'ideal type' which means that it is to be viewed as a 'standard' against which to compare or predict real life cases. For an ideal type is an abstraction that may or may not correspond too closely with the real world.

After explaining the concept we revert back to the strategic aspects of the elements of the marketing mix during different stages of the product life cycle. This we are doing by listing some of the suggestions relating to different elements of the marketing mix for coping with the different life stages.

Figure IV below shows some suggestions regarding strategies relating to the elements of the marketing mix.

Figure IV: Typical Suggested Strategies Relating to Marketing Mix Variables in the PLC Stages

Stage in Life Cycle	Product	Pricing	Promotion	Distribution
Introduction	Iron out product deficiencies	Highest	Create awareness of product's potential, stimulate primary demand	Selective distribution
Growth	Focus on product quality Variations of product introduced	High	Selective advertising of brand. Heavy advertising to create image	Extended coverage
Maturity	Product adjustments for further brand differentiation.	Moderate	Build and maintain image. Sales promotions facilitate.	Seek close dealer relationships
Decline	Simplify product-line. Seek new product uses. Introduce changes to revitalise product.	Low	Primary demand may again be cultivated	Selective, cultivated.

The question that arises is what approach should be followed to guide Marketing mix as illustrated in the figure above during different stages of the life cycle curve. One possible answer is that a marketer should seek and identify the stage in the life cycle from the conditions in the market. Probably, it would be helpful for this purpose to try and foresee the next stage and work back to establish the current stage.



Role of Advertising in the Marketing Mix

Generally speaking, there are only a few firms which directly compete with each other in the same target market. Economists call such a situation as oligopolistic situation. In this type of structure or situation, many firms prefer to increase their share by increasing demand through advertising rather than by reducing prices. The question that arises is why firms prefer such a strategy. The reason is that building up an image through advertising can be more difficult to match than a price 'cut. The assumption behind this preferred approach, of course, is that the firm can achieve a competitive edge in advertising and that it does not possess such a large cost advantage over competition so as to make price cutting an attractive pre-empting strategy.

The role of advertising has been discussed at appropriate places in previous sections of this unit. Please answer the following questions:

Activity D

State whether the following statements are true or false:

Activity D

State whether the following statements are true or false:

- | | | |
|--|-------------------------------|--------------------------------|
| 1 Advertising generally has a disadvantage in cost per person reached over personal selling and in creating brand awareness among mass audiences | <input type="checkbox"/> True | <input type="checkbox"/> False |
| 2 Advertising can have a wider reach and establish an image for a product that cannot be matched in personal selling | <input type="checkbox"/> True | <input type="checkbox"/> False |
| 3 Advertising can close a sale | <input type="checkbox"/> True | <input type="checkbox"/> False |
| 4 Advertising can distinguish suspects from prospects | <input type="checkbox"/> True | <input type="checkbox"/> False |
| 5 Advertising cannot give personal attention to individual buyer problems | <input type="checkbox"/> True | <input type="checkbox"/> False |
| 6 Advertising can act as liaison between the company and the buyers. | <input type="checkbox"/> True | <input type="checkbox"/> False |

Answers: (1) False (2) True (3) False (4) False (5) True (6) False

Role of Price in the Marketing Mix

Price can be the major element in the marketing mix. Generally however, pricing decisions have to be carefully coordinated with decisions on product, promotion and distribution. The framework for such coordination is the target market strategy, since the chosen target market gives overall direction in determining the marketing mix.

To illustrate: The luxury segments of consumer markets suggest a quality, branded product, extra touches, high-class outlets, appeals and media that capture the luxury image and a high price to match.

Question 6

Are price and promotion to some extent substitutable?

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Answer: In economic and marketing texts. it is usual to regard price and promotion as to some extent substitutes.

But you must remember that where there are just a few rival brands, competitors are more likely to react to a lowering of price than to an increase in advertising expenditure. Decreases in price are highly visible and are most often associated with the onset of cut-throat competition.



Activity E

A number of companies in India today are manufacturing razor blades. Some of the well known brands which are being marketed currently are Topaz, Erasmic and 7'O clock.

Assuming the market for razor blades is segmented on the basis of income as under Family monthly income:

- Up to Rs. 2,000
- Rs. 2,001 to Rs. 4,000
- Above Rs. 4,000

Further assume that the following information has been collected from users on the basis of a quick survey:

- Topaz blades are used by more people than other brands.
- Topaz blades are used by people belonging to all the three target groups.
- Erasmic's use is, however, less than Topaz and the Erasmic's target groups belong to the first two income categories.
- 7'O clock is mainly used by people belonging to the upper income bracket i.e., those whose income exceeds Rs. 4,000 per month.
- The price of 7'O clock blades is higher than the other two brands viz., Topaz and Erasmic.
- Erasmic's prices are lower than Topaz.
- For people in the first income bracket i.e., income up to Rs. 2,000 price is an important consideration in purchase decision.
- For people in the other two higher income brackets i.e., from Rs. 2,001 to Rs. 4,000 and above Rs. 4,000 smoother shave i.e., soft on the skin and the number of shaves a blade can ordinarily give are the two important products attributes that customers take into consideration while making a purchase decision. The desired number of shaves that a blade should ordinarily give varies from one income group to the other.

Analyse the above situation and answer the following questions:

1. The importance of price in the marketing mix from the point of view of different target groups based on the three income categories listed above.
2. The relative importance of product attributes and price in the marketing mix again from the point of view of different target groups.
3. The relative importance of price and promotion in the marketing mix again from the point of view of different target groups.
4. The overall approach which the companies follow to increase their market share.
5. The roles of influencers like family, peer groups, retailers and advertising in the making of a brand choice.

Suggested Steps: You need to proceed as follows for answering the above questions:

One, study the advertisements issued by these companies.

Two, conduct a quick survey:

- to find out about the prices of different brands
- to check with your friends the factors they take into consideration in making a brand choice and the brand they are currently using
- to find out how they were introduced to the brand which they were currently using - whether on the basis of the recommendations of the family members or of the peer group i.e., friend's circle or of the dealer or through influence exercised by advertisements.

Three, estimate the expenditure on advertising as a percentage of sales which these companies were currently spending on promoting their brands

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Suggested Answer: based on a quick survey:

- The brands which compete with each other in the same target segment mainly compete on the basis of advertising rather than on the basis of lowering of the price. The companies use mainly advertising to increase their market share.
- Price plays an important role in brand choice in the case of first category i.e., income up to Rs. 2,000. Erasmic brand is preferred in this target segment.
- Smoothness of shave and the number of shaves a brand ordinarily gives are two important product attributes that the other two target markets, viz., income from Rs. 2001 to Rs. 4,000 and above Rs. 4,000 look for in making a brand choice. These two product attributes are basically related to the quality of the product-but the second one which relates to the ... number of shaves is also concerned with the price of the product, though in an indirect manner.
- The target group which buys 7'O clock whose prices are higher and which is considered a superior brand is mainly preferred by those who belong to the third income category i.e., above Rs. 4,000.
- Both the family and the peer group play a significant role as influencers in the choice of a brand. The other significant influencing factor is the retailer's recommendation.

(**Note:** The purpose of the above suggested answer is to initiate you to the exercise of considering the role of different elements in the marketing mix rather than to provide complete answers to all the questions raised. As suggested, you collect your own information before answering the questions.)

4.7 SUMMARY

The objective of a marketer is to combine the various elements of the marketing mix viz., Product, Promotion and Distribution in such a way that he will achieve the necessary volume of sales at a cost that will permit him to make a desired profit. The way these elements are to be combined will basically depend on the target market to be served. Which means that the needs and wants of the target consumers have to be studied and interpreted and then a unique blend of various elements of the marketing mix has to be designed to reach a specific group of consumers. The planning of the marketing mix, however, is a part of the overall marketing planning. The elements of a marketing plan are current marketing situation analysis, problems and opportunities analysis, objectives, marketing, strategy and programme, marketing budgets and sales volume, cost/profit estimate. The marketing mix decisions form the basis of the overall marketing strategy.

The other decision areas of marketing strategy relate to target markets, market positioning and marketing expenditure levels. The interdependence of these decision areas defines the structure of the marketing strategy and determines whether or not they form an effective plan of action.

In combining different components, it is important to identify the key element in the marketing mix. A number of factors affect the key element and these are the product, the type of market, stage in evolution and competitive conditions. These factors are not static factors but keep on changing. Further, components of the marketing mix are partially substitutable for each other. This further complicates the situation.

Notwithstanding all this each firm must try to find the best combination or optimum marketing mix for its particular situation at a particular time. The decisions, however, are not easily made. In many instances it is difficult to obtain information upon which to base a decision. There are so many alternative mixes available that it is difficult to run elaborate experiments that will measure the results of various combinations. Furthermore, costs change, competition changes, and consumer tastes change, which make it necessary to vary the mix from time to time.

Nevertheless, decisions are made with respect to the marketing mix. For instance, new products are developed and modifications are made in existing products. Packages are redesigned from time to time. Price and channel policies are established. Decisions are made with respect to the allocation of marketing budget over different elements of the promotional mix, viz., advertising, personal selling and sales promotion. Remember these are largely



decisions made by the individual firm for its own situation. They do not necessarily have general applicability, although we do know for example, that industrial goods manufacturers tend to spend proportionately less for advertising than do consumer goods manufacturers. But these relationships should not be accepted without further inquiry as marketing mix variables interact not only with each other but also with non-marketing variables in the firm.

4.8 KEY WORDS

Skimming price: The skimming price is used by many companies when products or offerings which are new-to-the-world are introduced in the market. The initial prices set are at a higher level and the objective is to 'skim' the market. The companies on their discoveries estimate the highest price they can charge given the comparative benefits of their new product versus the available substitutes. After the initial sales slow down, they lower the price to draw in the next price-sensitive layer of customers. The skimming price may also be described as sliding down the demand curve i.e., it captures buyers at the top of the demand curve before reducing price to attract other price segments of the market.

Penetration price: The penetration price- a relatively low price - is used by other companies on their innovative product. Through penetration pricing, these companies hope to attract a large number of buyers and win a large market share. This strategy involves the adoption of both low prices and perhaps heavy promotion to penetrate mass markets and gain market share.

R & D (Research and Development) : R & D expenditures are all costs associated with the search for or discovery of new knowledge that may be useful in developing new products, services, processes or techniques, or that might significantly improve existing products or processes. However the following costs are excluded. These are costs of routine product improvement or seasonal changes of style, market research and testing, quality control and legal costs to protect patents.

4.9 SELF-ASSESSMENT TEST

The following questions have been framed to help you to test yourself whether you have grasped all that has been explained in this section. Separate sheets are to be used for writing out answers to these questions. You may refer to the text of the unit to sharpen your understanding of the subject matter. After attempting these questions you may act as your own evaluator.

Questions:

1. Write out the most precise, yet descriptive, definition of the marketing mix.
2. Why marketing mix is an important determinant of a firm's success? What problems a marketer faces in determining a suitable marketing mix?
3. "The marketing mix of a firm ... is the product of the evolution that comes from day-to-day marketing". Discuss this with your friends in industry and summarise the outcome of the discussion.

Marketing Mix Exercise

Richmen Ltd., marketing its own blend of coffee, finds that coffee is not as popular in northern parts as it is in the southern parts of the country. The company now wants that coffee consumption should increase in the northern parts as well.

You are required to design a complete marketing mix based on the following limited information:

1. There are fewer coffee drinkers than tea drinkers in the northern parts of India.
2. North Indians are traditionally tea drinkers and not coffee drinkers,
3. Coffee drinkers are usually in the upper-middle to upper-income brackets.
4. Coffee drinkers are usually college educated.



In the context of the above information, describe each of the following:

Target consumers:

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Product activities:

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Promotion activities:

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Advertising:

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Personal selling:

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Sales promotion:

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Place or Distribution activities:

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Physical distribution:

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Channels of distribution:

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Assume that you have to make a presentation of the recommended strategies relating to different elements of the marketing mix to the marketing manager of your company. What aspects of the marketing mix are most likely to be successful? Which ones are most likely to be least successful? Why?

4.10 FURTHER READINGS

Kotler, Philip, 2002, 11th Edition, Marketing Management, PHI-New Delhi

Michael. R.Masaaki ,Marketing Management ,2nd edition, Vikas publications New Delhi