

Introduction to Marketing

1.1. MARKETING

1.1.1. Definition of Market

Market is defined as a group of individuals or organisations that is interested in purchasing products and services, is capable of purchasing and has the permission of law to purchase that product.

According to Cournot, "Economists understand by the term market, not any particular market place in which things are bought and sold, but the whole of any region in which buyers and sellers are in such free intercourse with one another that the prices of the same goods tend to be at equality easily and quickly".

According to Philip Kotler, "A market consists of all the potential customers sharing a particular need or wants who might be willing and able to engage in exchange to satisfy that need or want".

According to Pyle, "Market includes both place and region in which buyer and seller are in free competition with one another".

The number of persons, whose needs are not satisfied but they have the ability to perform the transaction for fulfilling their requirements, determines the size of the market.

1.1.2. Meaning and Definition of Market & Marketing

In a narrow view, marketing is an activity of selling and purchasing of goods or services. But, the nature and scope of marketing is a much wider perspective. Along with the fulfilment of needs and wants related to the sale and purchase of goods and services, it encompasses the entire process of customer satisfaction. Hence, the process involves identification of consumers' needs and wants and fulfilling it to the extent till the customers are pleased and contented. With the changing marketing environment, the taste and preferences of the customers are also changing. Therefore, marketing also considers the changing requirements of the consumers apart from providing them with basic products or services. In totality, marketing comprises of all activities like producing, interacting, distributing and exchanging products/services which offer value to the customers.

According to William J. Stanton, "Marketing is a total system of interacting business activities designed to plan, price, promote and distribute want-satisfying products and services to the present and potential customers".

According to Cundiff and Still, "Marketing is the business process by which products are matched with the market and through which the transfers of ownership are affected".

According to American Marketing Association (new definition), "Marketing is an organisational function and a set of processes for creating, communicating and delivering value to customers and for managing customer relationships in ways that benefit the organisation and its stakeholders".

1.1.3. Elements of Marketing Concept

The core concepts related to marketing, considered as its elements are given below:

- 1) **Needs, Wants and Demands:** Needs refer to the basic necessities of human beings related to their inherent characters. The need fulfilment criterion depends upon the cultural and social environment of the society. **For example**, shelter is the basic need of an individual, as one cannot reside on roadside or on footpaths.

Wants refer to the desires for particular things which are unified with the needs of the individual. **For example**, for fulfilling the need of shelter, a person may desire of a house in a clean locality. In comparison with the needs, individuals have numerous wants.

Demands are those definite wants for any product(s) which are supported by the willingness and ability to buy them. The purchasing power of the consumers converts their wants into demands. In marketing, a marketer is more interested to know about the consumers having the purchasing power rather than those who only desire to have a product. **For example**, a person may desire of a penthouse by the seaside, but due to low purchasing power his demand remains ineffective.

- 2) **Goods-Services Continuum:** In general, organisational products are a composition of goods and services. According to the goods-services continuum, some products may have either tangible (e.g., salt) or intangible (e.g., teaching) characteristics. However, there are some products which provide both goods and services at the same time, like travelling via airplane. The position of product on the continuum enables the marketer to spot potential opportunities.
- 3) **Products:** Product is anything that is offered for sale. It is a process where a thing is produced as a result of labour, growth, thought, or activity. A product can be anything, a service or even an item. It may be produced immediately or gradually. It may also be a resultant of mental efforts or an unconscious effort such as seasonal fruits, by-products, etc. In marketing, product is anything tangible or intangible in nature, which is offered for consumption in order to satisfy consumer needs. **For example,** in manufacturing, product is brought as a raw material and sold as a finished good, which is further distributed in the market to satisfy customer needs and wants. While in retailing, products are known as 'merchandise'.
- 4) **Utility:** In economics, utility is an important concept which is related to marketing. The term utility is a measure of absolute desirability, or consumption, or satisfaction towards a particular product. It explains the ability of goods or services to satisfy the needs and wants of the consumers. The measure of utility helps to identify the increase or decrease in the level of utility. It may also be used to explain the economic behaviour in the form of number of attempts required to increase a product's utility.

They are as follows:

- i) **Form Utility:** The process of product planning and development combines to create form utility. This involves various stages from converting the raw material to the development of a finished product. Finally, the form defines the utility of the product.
- ii) **Time Utility:** Time utility occurs when the product is made available to cater the consumer's demand at his/her time of desire. This can be made possible when the goods manufactured are delivered through proper channels at right time to the final destination.
- iii) **Place Utility:** Availability of a product at right place, keeping in mind the convenience of the customer, creates place utility. This can be done by providing the product at the place, where it is required the most by using different channels of distribution.

iv) **Ownership Utility:** When a seller legally transfers his ownership over products to the buyer through a sales operation, ownership utility is created. The products remain liable to the producer, retailer or seller until it is purchased by someone else.

- 5) **Customer Value:** Value refers to the worth or usefulness of goods or services. The best definition of value from consumer's perspective is the difference between a potential customer's evaluation of the benefits and costs of one product in comparison to others. The value can be generated only when product and user come together. Therefore, the level of value generated is determined in terms of high satisfaction, satisfaction or dissatisfaction. It also affects the customer decision-making and long-term relationship with the organisation. By using the formula given below, value can be calculated:

$$\text{Customer Perceived Value} = \frac{\text{Benefits Deriving from a Product}}{\text{Cost of Acquiring the Product}}$$

From the above equation, it can be concluded that the value from a product is only created, when the perceived benefits are more than the actual cost of the product. Another crucial factor for value creation is that the value of firm's product should also be more than the competitor's product. Applying this equation has proved beneficial to marketers.

- 6) **Cost, Satisfaction and Quality:** In general, cost is the amount paid to buy or obtain goods or services. In marketing, cost is the estimated price of the product which is paid to satisfy one's needs at the lowest possible cost of ownership or usefulness. **Satisfaction** is an attitude towards a particular product or service after its consumption. A consumer feels satisfied when his/her needs meet their expectations. Customer satisfaction is the central focus of all marketers. It also helps to predict the future buying intentions of the consumers. **For example,** when a customer feels satisfied after consuming a particular product, then he/ she shares his/ her experience with others, also known as a positive word-of-mouth. Whereas, an unsatisfied customer who wants to switch over to another product will also share his/her experience, which is known as negative word-of-mouth. **Quality** is the distinctive attribute of a product or service which is perceived by the consumers. It is largely based on the level of satisfaction received by the customer. With the changing trends, many organisations have introduced the concept of Total Quality Management (TQM). This helps the organisation to constantly improve their quality and keep satisfying their customers.

7) **Exchange and Transactions:** The basic nature of marketing activity is the exchange of products and services with the objective to satisfy consumer needs and wants. **Exchange** is the process of acquiring a desired product by giving goods or services of the same value in return. In terms of marketing, it is a social concept. Usually, the exchange process takes place when both parties involved are meant to be agreeable on the terms and conditions related to exchange. When an exchange gets completed, then it is known as 'transaction'.

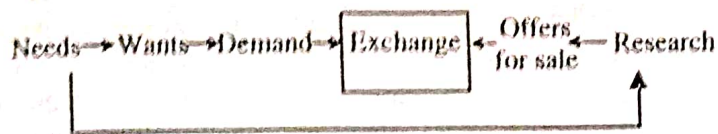


Figure 1.1: Needs, Wants, Demand, and Exchange

The basic unit of exchange is transaction. **Transaction** is an act of exchanging goods and services between two parties. It can be in form of money or barter. The transaction activity comprises of several elements like exchangeable units of value, mutual agreement, time of agreement, and place of agreement. This agreement is implemented and supported by legal system under the transaction process.

8) **Relationship Marketing & Networks:** An integrated marketing activity that aims to identify, develop and manage long-term relationships with large number of customers individually is known as **relationship marketing**. Relationship marketing is a long-term relation between marketers and different parties, viz., customers, suppliers, distributors, etc. It acts as a unique company asset which is also known as a network of mutually beneficial business relationships.

A **network** is the channel relationship between the organisation and its key stakeholders. The stakeholders can be in the form of suppliers, employees, customers, channel members, advertising agencies, etc. In the competitive environment, more than being competent as an organisation, one must have an effective marketing network.

9) **Market:** In general, market is a place where a sum total of all buyers and sellers of a region or area collect to exchange goods and services, e.g., fruit and vegetable market. In terms of marketing, 'market' is a group of consumers or firms who want to purchase a product are capable of purchasing the same product and the ownership of such product is permitted by law.

10) **Marketers:** In an organisation, marketer is a person who is responsible for recognising the goods and services required by the group of consumers and

then marketing those goods and services on behalf of the organisation. A person, whose duty is to sell goods and services in a market where only specific commodities are sold, is known as a marketer. In general, marketer represents an organisation which serves a market of end-users. The relevant products and services required by the end users are directly sent by the organisation and the competitors through marketing intermediaries. The environmental forces and respective intermediaries also impact the relative effectiveness of the organisation.

1.1.4. Consumer Needs

Needs refer to the basic necessities of human beings related to their inherent characters. The need fulfilment criterion depends upon the cultural and social environment of the society. **For example**, shelter is the basic need of an individual, as one cannot reside on roadside or on footpaths. 'Need' is something hidden in the personality of a person. The tendency of people to satisfy such needs can be regarded as the first step of all the marketing activities. The procedure of satisfying the need of the person depends upon the cultural value of the society in which the person lives. Therefore, the need for self-fulfilment differs from one society to another and thus, can be attained either by sacred atonements or through the pursuit of creative endeavours.

1.1.4.1. Characteristics of Needs

Following are the basic characteristics of needs:

- 1) **Needs are Dynamic:** Satisfaction is a temporary phenomenon as needs are never satisfied completely. **For example**, the need of hunger does not end when we eat something; it arises again after a while. Thus, a new need emerges when the old one gets satisfied. People tend to find social companionship when their basic physiological needs are fulfilled. Therefore, it can be said that daily life is a continuous process of need fulfilment and needs are ever-changing.
- 2) **Needs Exist in a Hierarchy:** Though there can be more than one need at a particular point of time, some of them have greater importance. **For example**, a candidate might feel thirsty or hungry during an exam, but his need for achievement will have higher priority and will thus overcome his need for hunger. In this way, various needs activate simultaneously and affect people's attainment, usage and disposition behaviours. **For example**, people visit restaurants for dinner satisfying a range of needs including stimulation, hunger and companionship.
- 3) **Needs are Internally or Externally Aroused:** Some needs are aroused externally while some are aroused internally. **For example**, smell of pizza coming out from a restaurant may affect the perception of a person regarding food.

1.1.5. Functions of Marketing

Different functions of marketing are as follows:

- 1) **Market Information:** The basic task of marketing is to identify market information in the form of consumer needs, wants, and demands. The study of market information enables the marketers to design effective marketing strategies. This analysis helps to determine the internal strengths and weaknesses of the firm and evaluate the macro-environment of the target market. Further, this information is used in segmentation of the market.
- 2) **Research:** Another important task of marketing is research. This enables the target market to collect required information for decision-making. The research process involves identification of size, culture, genders, belief, behaviour, needs and wants of target market. This forms the basis of product development to fulfil the consumers' needs.
- 3) **Buying Function:** Buying is also a significant task of marketing to procure quality raw material for production function. This function is accomplished by

the purchase and supply department of the organisation. But the description and specification of the material is directed by the marketer. Hence, while designing the product for target market, the marketer must buy all materials essential for the production.

- 4) **Market Planning:** This task of marketing involves planning for production decisions, promotion decisions and other relevant activities. The main purpose of market planning is to achieve the desired goals of the organisation through capturing targeted market, expanding market presence or through increasing market share.
- 5) **Exchange Function:** Exchange task of marketing involves the buying and selling activities. It makes sure that the required products and services are available to consumers in adequate quantity. The measures like sales promotion, personal selling and advertising assist the exchange function to sustain in the market.
- 6) **Product Designing and Development:** The purpose of product design and development is to make the product better and more attractive. In accordance with the changing market environment and consumers' preferences, the product should be cost-effective along with high-end quality, style, appearance, suitability and design. All these factors influence the consumer's buying decision. Hence, product development is very crucial in marketing. The product development process comprises of various stages where the consumers' needs and wants are identified and accordingly the product is developed. The product can also be maintained by conducting its performance evaluation. All this is done to capture a large share of target market.
- 7) **Production:** This task is managed by the production department. Even though, many associated production activities are undertaken by the marketing department like product testing, techniques used, packaging, etc. All this is done to assure that the product meets the needs and wants of the target market.
- 8) **Promotion:** Promotion is one of the key tasks of marketing. After production, the final product is launched in the target market for sale. It is the responsibility of marketing department to promote its final products and communicate with its target market about the product. This requires the marketer to adopt certain promotional methods to reach its consumers such as advertising, sales promotion, personal selling, public relations, etc.
- 9) **Standardisation and Grading:** Marketers also perform standardisation and grading function. In standardisation function, products are developed under specific guidelines which meet out the set quality and quantity throughout the production. This helps to maintain the consistency and homogeneity in the product. In grading function, the final products are grouped into various categories on the basis of their characteristics. The standard measures used for grading depend upon the size and weight of the product. Marketers may also use grading for pricing of products.
- 10) **Pricing:** Pricing is the process of determining the value which the company will receive in return of its products and services. Marketers are responsible for designing of pricing policies and systems. The price of product is usually based on the product life cycle and performance of the product.
- 11) **Distribution:** Distribution system plays a significant role in marketing. It helps to move goods from the production house to the final destination in stipulated time. Different modes of transportation are used to reach the target market like air, water, rail, road, etc. Marketers also decide the type of intermediary being used in the distribution channel along with their motivation and incentive plan.
- 12) **Packaging, Labelling and Branding:** The tasks of packaging, labelling and branding are also performed by marketing department. Packaging refers to the act of designing a product package. While, labelling is the process of mentioning the general information about the product on the package. Both these activities are used as a source of promotion by the company. Branding provides a unique name to the product another than its generic name. For example, hair oil is the generic name of the product whereas "Dabur Amla" is the brand name. Branding is also important in services marketing.
- 13) **Financing:** In marketing, financing provides credit to its consumers and channel members. Financing is that part of marketing which generates income for the business. It helps in raising capital for start-up activities of the business and also for its growth and sustainability. It also acts as a mode of payment for the customer's purchases.
- 14) **Risk-taking:** Risk-taking is another key task of marketing. Marketers take risk in producing and marketing of products and services which consumers may or may not purchase in future. Here, marketers are uncertain about the buying decisions of the consumers.
- 15) **Customer Support:** Marketers also perform customer support function, which handles and manages customer queries and complaints. These support functions comprise of pre-sales queries, post-sales services, grievance handling services, complaints handling services, financial and credit services, etc. For example, service warranty of mobile devices after it has been purchased, is a marketing function of the organisation.

1.1.6. Importance of Marketing

Marketing has converted numerous management thoughts and practices into reality such as flat organisational structure, flexible manufacturing systems, high involvement towards customer service, etc. Therefore, marketing is important to different people in different ways.

Some of them are as follows:

1) **Importance to the Marketers:** Marketing is important for the marketers in following ways:

i) **Financial Success:** The success of an organisation largely depends upon the effectiveness of marketing the products or services. Other organisational functions such as finance, operations, accounting are worthless, if the demand for the product or services is not significant. Hence, marketing acts towards profit-maximisation while other functions are cost-based.

ii) **Marketing is often the Route to the Top:** Like other top positions in an organisation, people related to marketing are also titled to the post as Chief Marketing Officer. The CMOs are very much similar to the chief finance officer or chief strategy officer. Marketing activities and strategies are a part of every annual report presented by the organisation. Marketing is considered as the most vital and significant part of the entire organisation.

iii) **Enhances Sales:** Other than promoting the products and services, marketing is also responsible for keeping up the sales volume of the product. It is the role of marketing executives to recognise the preferences and demands of the consumers and present them the best product. For all this, marketing integrates with communication mix to relate with the customers in an effective way.

iv) **Develops Company's Image:** Marketing plays a significant role in building the company's image. This can be established through brand name, logo, caption, brand image and tagline which is viewed and perceived by the customers *via* television commercials.

v) **Major Component of Product Pricing:** Marketing is an important component for deciding the price of the product, as a major portion of the price is related to the marketing activities like promotion, product designing, market research, etc.

One of the biggest issues of product pricing decisions is to reduce the product cost without compromising with the marketing objectives.

2) **Importance to the Consumers:** Following points reflect the importance of marketing for the consumers:

i) **Availability of Global Goods:** The integration of marketing activities with the information technology has aided the consumers to access variety of products from different countries globally. Different tools like websites, online communities, e-mails, SMS, e-businesses, etc., are used by marketers to reach global customers and facilitate exchange. With the advanced technologies, one can easily compare different global products and make a final decision for purchase.

ii) **Promotes Product Awareness:** The main source of product recognition and awareness is through marketing. This helps the customers to uplift their standard of living. No one ever thought of technologies like mobiles phones and laptops to be the part of daily life. Marketers are the initiators of these innovative products in the market.

iii) **Creating Utilities:** Different utilities are developed through marketing. Major utilities are time utility (arranging the product at required time), form utility (changing the raw material into desired form of final product), information utility (informing about required product available at a particular place and at reasonable price), possession utility (by transferring the ownership authorities), and place utility (making product available to the customer).

3) **Importance to the Society:** Society gets benefitted from the marketing in following ways:

i) **Protection against Depression:** Depression is a situation where large number of sellers offer homogenous products in the market. Marketing facilitates the availability of variety of products at reasonable prices, thus avoiding the depression situation.

ii) **Job Opportunities:** Marketing provides several job opportunities to the society like advertising, personal selling, marketing research, logistics, product design, retailing, packaging, media relations, event management, market analysis, etc. Other than these opportunities, non-commercial job opportunities also have wide scope such as social marketing, ethical marketing, advocacy marketing, cause marketing, etc.

iii) **Availability of Various Products:** Without marketing, there would have been no customer preferences. Marketing offers a wide range of products and services to consumers with different tastes and preferences.

1.1.7. Marketing *versus* Selling

Following points highlight the differences between selling and marketing:

Basis of Difference	Selling	Marketing
1) Emphasis	In selling, emphasis is given to the product.	In case of marketing, consumers' needs and wants are emphasised.
2) Approach	Traditionally, selling approach involves manufacturing and then sales of the product.	In marketing approach, first the needs and wants of customers are identified and then the product is delivered.
3) Primary and Secondary Motive	The primary and secondary motive of selling is sales and company's satisfaction respectively.	In marketing, the primary motive is to satisfy the customers and secondary motive is to meet the consumers' expectations.
4) Orientation	It is a sales-volume oriented process.	It is a profit-oriented process.
5) Planning	It is a short-term plan based on prevailing products and markets.	It is a long-term plan based on the tastes and preferences of the consumers.
6) Need Priority	It focuses on the needs of sellers.	It focuses on the needs and demands of consumers.
7) Philosophy	Business is considered as a source of profit generation.	Business is considered as a way to satisfy consumer needs.
8) Technology	Selling process is based on existing technology with limited costs.	Marketing process is based on superior technology to provide better value and innovative products to customers.
9) Work Delegation	Different departments perform individually, with distinct objectives.	There is common goal to all departments and they work as a team.
10) Price Determination	Price is determined by manufacturing costs.	Price is determined by consumers, i.e., market.
11) Customers	In selling, customers are considered as the last link.	In marketing, customers are considered to be the prime link.

1.1.8. Marketing to the 21st Century Customer: Current Trends

The 21st century has seen the advent of the new economy, thanks to the technology innovation and development. To understand the new economy, it is important to understand in brief characteristics and features of the old economy. Industrial revolution was the starting point of the old economy with focus on producing massive quantities of standardised products. This mass product was important for cost reduction and satisfying large consumer base, as production increased companies expanded into new markets across geographical areas. The old economy had the organisational hierarchy wherein top management gave out instructions which were executed by the middle manager over the workers.

In contrast, the new economy has seen the buying power at all time, thanks to the digital revolution. Consumers have access to all types of information for product and services. Furthermore, standardisation has been replaced by more customisation with a dramatic increase in terms of product offering. Purchase experience has also changed as well with the introduction of online purchase, which can be done 24 × 7 with products getting delivered at office or home. Digital revolution has increased speed of communication by mobile, e-mail, SMS, etc. This helps companies take faster decisions and implement strategies more swiftly.

Digital revolution and 21st century have made companies fine tune the way they conduct their business. One major trend observed is the need of streamlining processes and systems with the focus on cost reduction through outsourcing. Another trend observed in companies is, encouragement to entrepreneur style of work environment with glocal (global-local) approach. At the same time, marketers of companies are looking forward to building long-term relationship with consumers.

This relationship establishes platform understanding consumer needs and preference. Marketers are looking at distribution channels as partners in business and not as the customer. Companies and marketers are making decisions using various computer simulated models. To summarise 21st century marketing is a challenge, which is to keep-up pace with changing times. Some types of current and emerging trends in marketing are following:

- 1) **Networking Marketing/Multi-Level Marketing (MLM):** It is a marketing strategy where sales personnel are not only remunerated for sales generated by them but also for sales generated by those sales personnel whom they recruit. This forms multi-level distribution channel and remuneration system. Multi-level marketing is also known as referral marketing, network marketing, or direct marketing.
- 2) **Viral Marketing:** It is generally an internet-based marketing approach where different pop-ups, blogs,

and temporary websites (casually designed), etc., are used to promote a new product or service in the market. Viral marketing aims to focus on unusual and non-popular incidents for promoting new product or service rather than planning a high-budget advertisement.

- 3) **Guerrilla Marketing:** Guerrilla marketing approach uses an entirely different approach to market the products and services and anticipates creating huge sales with minimal resources. All this can be done through several ways such as street shows, PR stunts, product giveaways, etc. New and innovative approaches of guerrilla marketing also involve mobile digital technologies to influence its customers.
- 4) **Green Marketing:** The activities like product modification, changes in the production process, packaging changes, and revised advertising methods, all come under green marketing. It is not an easy task to define green marketing, as all exchange activities aim to satisfy needs and wants of the consumers. In green marketing, the exchange process only takes place when the organisation and its customers are fully satisfied.
- 5) **M-business:** Nowadays, m-business is the most popular marketing approach. It has become a powerful tool for marketing which cannot be ignored in years to come. The future of M-business is so bright that it would remain the most preferred approach of common people. It is going to replace the traditional desktops and computers for all e-business operations. Mobile business is a channel to build and enhance the new business processes, new business opportunities, and customer relations, with the help of mobile technology. Therefore, all the businesses running on mobile technology are termed as mobile businesses.
- 6) **Online Marketing:** The marketing of products and services via internet is called online marketing. It is also termed as e-Marketing, Internet advertising, and Internet marketing. While, web marketing or web advertising is a web-based promotion of products and services.
- 7) **Relationship Marketing:** Relationship marketing refers to a specific approach of marketing, where large network is set up by developing and managing long-term relationships with its customers. This network is constantly strengthened in order to benefit both consumer and marketer for a longer time period. It also helps to maintain and sustain brand loyalty of customers. Under this approach, all the complaints and queries of customers are directly looked after by the organisation instead of media or other potential consumers.
- 8) **Experiential Marketing:** This type of marketing approach believes in demonstrating the features and

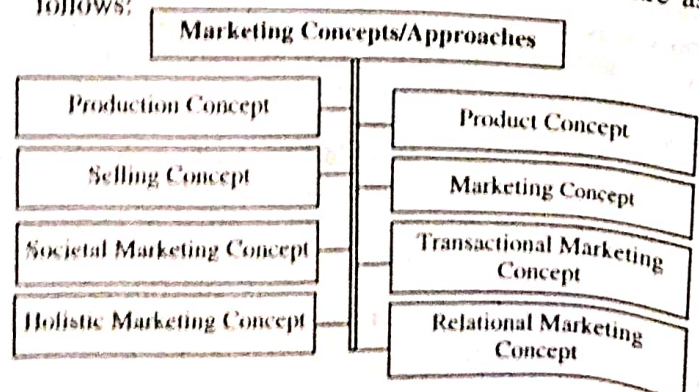
benefits related to a product rather than just communicating or promoting it. It is very different from traditional marketing as it targets the customers' experiences i.e., sense, feel, think, act and relate, which are essential part of customers' perception. For example, Mahindra sponsored the Mahindra Monastery Escape campaign, i.e., a trip from Delhi to Leh, a real Himalayan experience for adventurers.

- 9) **E-Business:** In a new economy, e-business assists to improve the organisational process which helps to deliver value to its customers. E-business also enables the organisation to understand the significance of electronic means and platform which is most effective for a particular business. The use of internet largely helps the organisation to operate efficiently, accurately, economically and provide customised services to its customers. Several organisations have set-up their website in order to promote, communicate and inform its customers about their offerings. Not only this, the organisations also provide intranet facility for its employees and extranet facility for its suppliers and distributors to exchange and communicate information.
- 10) **Data Warehouses and Data Mining:** It acts as a warehouse where all the information related to the customer is gathered. Here, customer comes across different departments for handling different activities like a customer purchase, a customer-requested service call, an online query, or a mail-in rebate card. This information helps the organisation to analyse and evaluate the needs and wants of individual customers.

1.2. MARKETING CONCEPTS: EVOLUTION OF MARKETING

1.2.1. Introduction

With the changing market environment, the organisational philosophies, approaches and tools are also changing rapidly. The marketing concepts are the approaches which may be used by the organisation towards target market for marketing of products and services. There are different marketing concepts or philosophies available to the companies, which are as follows:



1.2.2. Production Concept

The production orientation was introduced during the industrial revolution in the 19th century and lasted till the late 1920s. This concept is based on the law that "supply creates its own demand". Under this orientation, consumers' tastes and preferences are not considered while producing goods and services. Earlier, it was believed by marketers that the goods produced by them will be sold as per the consumers' requirements.

Based on the law that "supply creates its own demand", it is assumed that with the increase in production and distribution activities, the sale of products and services also increases. This concept is very old and is implemented only in limited situations. For example, if a firm wants to cut-down its cost of production then this can be done by increasing production of goods and services. This will generate economies of scale and reduce the cost of products. In a similar way, the disequilibrium between the demand and supply can be managed by applying production concept. With high demand, the prices of products also start increasing which leads to high profits.

The organisations following production orientation assume that if products are of low cost then they can be offered at various locations and marketers will not face any problem. In consideration with above statement, organisations focus on low cost of production and wide distribution network. This process involves large scale of production which is a crucial problem for the organisation. It is not always necessary that customers will buy cheap goods and services, whenever offered. This orientation is very useful in banks, hospitals, and industries producing convenience products.

1.2.3. Product Concept

This marketing concept is all about providing good quality products and services with attractive features to consumers at reasonable prices. It helps the sellers to focus on products considering their quality, performance, innovative features, etc. Along with all these standards, it is also important to look after the design, packaging and better distribution channels so as to appeal more customers. The major problem of this concept is marketing myopia, because of which the organisation ignores other alternatives and its competitive advantages present in the market. Based on the concept, it is believed by many organisations that customers can be easily attracted by good quality products and services. This concept evolved on the basis of thinking that quality of goods largely attracts the customers. As a result, all the marketing efforts are used to increase the quality of a product.

The organisations using 'product orientation' automatically assume that consumers rely on the

products of high quality. Therefore, organisations put all their effort, time and money to bring out new and innovative products and attain product excellence. But, in reality, good quality is not the only factor responsible for attracting customers and making them buy the products or services. Other important factors affecting the buying decisions can be price of the product, availability of product, etc. The monthly or yearly budget of a customer gets disturbed due to availability of quality products at high prices. Thus, focussing only on the quality aspects of the product is not considered as an effective marketing approach.

There is a remarkable difference between 'product orientation' and 'production orientation'. Production orientation is about capturing the market and making profit by producing large amount of goods at low cost. While, product orientation seeks to achieve the same objective through product excellence which involves high-quality products, improved features, attractive designs, etc. In short, the product concept of marketing deals with the product and its related features to win the market.

1.2.4. Selling Concept

From the late 1920s till the mid of 1950s, the sales orientation or concept was widely used as the management philosophy. This approach involved larger-scale selling and promotional activities related to products and services. The main aim of this concept was to attract large number of customers. In general, there are many products which consumers do not normally purchase, but are produced by the firms.

Therefore, sales concept is used to attract such customers. It involves high amount of risk, because organisations need to sell the product whether it is liked by the customers or not. In case the product is not liked by the customers, it may tarnish the goodwill of the organisation.

The sales orientation suggests that the customers' can be attracted towards the product. It is also believed that goods are not bought but they have to be sold. Consequently, the organisations focus on their efforts towards communicating and attracting customers. They follow the philosophy 'selling what you have'.

The concept also suggests that by making continuous attempts marketer can sell anything to the customers. But this may not be applicable in all situations, as marketer can attract customer to buy a product once. It is not necessary that the customer will buy the same product each time. This may prove as a disadvantage to the organisation. Hence, sales concept is a short-term concept, which cannot be used to achieve long-term goals.

1.2.5. Societal Marketing Concept

During the 1980s and 90s, several modifications took place in the marketing concept. These modifications were specifically based on the understanding of consumers' needs and developing products as per their requirements. This new concept of marketing is known as 'societal marketing concept', as it also deals with the concept of social welfare other than satisfying consumer needs.

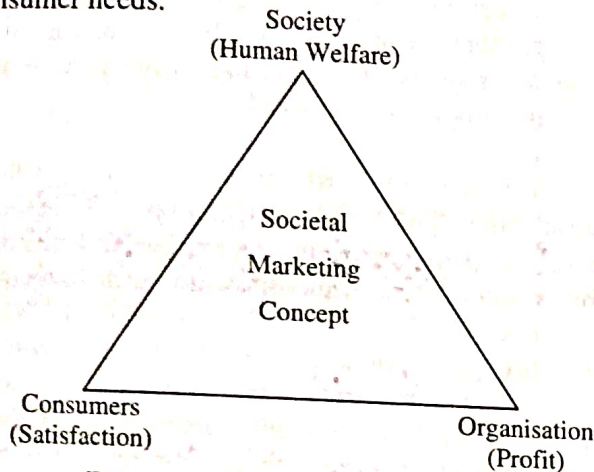


Figure 1.2: Societal Marketing Concept

Societal marketing orientation is a rational concept of marketing where good marketing decisions are taken in relation with the company's requirements, consumers' wants and long-term interests of the society. It is also associated with the philosophies of sustainable development and corporate social responsibility.

This concept states that organisations should first identify the interests, needs and wants of target markets, then design effective strategies to fulfil their requirements, and apply these strategies in such a way that along with customer satisfaction the society's improvement is also achieved. Whereas, pure marketing concept creates conflict between long-run welfare and short-run wants of consumers. Societal marketing orientation is the advanced form of marketing concept. This concept is not just about customer satisfaction only. Its main aim is to provide social welfare to the general public. **For example**, a generator set manufactured by a company, provides electricity back-up which will satisfy the customer needs, but in return will cause environmental pollution, ignoring social welfare.

With the help of social welfare, organisations can develop higher standards of living and pollution-free environment. Therefore, all the marketing efforts made by the organisations are focussed towards customer satisfaction and social welfare. For attaining long-term profit, organisations generally implement this concept of marketing. This concept directs the organisation's marketing plan towards the long-term welfare of the society as a whole. Along with performing basic marketing functions like product and service marketing,

societal marketing focuses on the society at large. Thus, it aims at satisfying needs and wants of consumers, organisational goals, and long-term welfare of the society.

1.2.6. Holistic Marketing Concept: A New Set of Beliefs

In the 21st century, all top-most organisations follow a new set of beliefs and practices known as 'holistic marketing'. This concept involves unique marketing strategies, actions and processes which are designed, developed and applied in order to determine the extent and level of interdependence. Therefore, holistic marketing is a step to identify and re-organise the scope and issues related to marketing. The scope of holistic marketing involves following set of modern marketing processes:

- 1) **Internal Marketing:** The basic concept of marketing has evolved internal marketing. In this strategy, employees are viewed as internal customers and their jobs or responsibilities are viewed as internal products. It focuses on fulfilling the organisational objectives by satisfying the needs and wants of internal customers. Thus, internal marketing is a continuous process which directs, motivates and empowers the organisational employees to constantly provide better customer value.
- 2) **Integrated Marketing:** In this strategy, the marketer applies integrated marketing programs in order to develop, connect and deliver significant customer value. There are various types of marketing activities which can be used to determine value. **McCarthy** has categorised these marketing activities as four Ps of marketing (product, price, place and promotion), also known as 'marketing mix'. Hence, every marketing process must involve these four Ps to fulfil the objectives of marketing activities.
- 3) **Performance Marketing:** Performance marketing is a strategy which encompasses the performance of all the marketing activities along with their ethical, legal, environmental and social impacts. Other than the evaluation of marketing activities, the top management also examines the scorecard along with the profit/loss statement in order to analysis the level of customer satisfaction, market share, quality of products, rate of customer loss, etc., through performance marketing.
- 4) **Relationship Marketing:** It helps to build long-term relationships with the key participants of organisation in order to be successful. Marketing network is a unique company asset which is the resultant of relationship marketing. The network comprises of the company and its stakeholders such as employees, suppliers, distributors, customers, ad agencies, researchers, etc., with whom the mutual relationship has been developed.

1.2.7. Marketing Concept: Modern Concept of Marketing

Marketing orientation is a **customer-oriented concept**, it is also known as the **modern marketing concept**. The basic philosophy of marketing concept states that the objective of an organisation can only be achieved by acknowledging consumers' needs and wants as well as satisfying them. This also helps the organisation to maximise their profits.

The organisations followed the customer-oriented concept to develop products which satisfied and attracted the customers. In the early 1960s, customer-oriented concept was implemented by the marketing department of some organisations. Later, these organisations were known as 'marketing companies'.

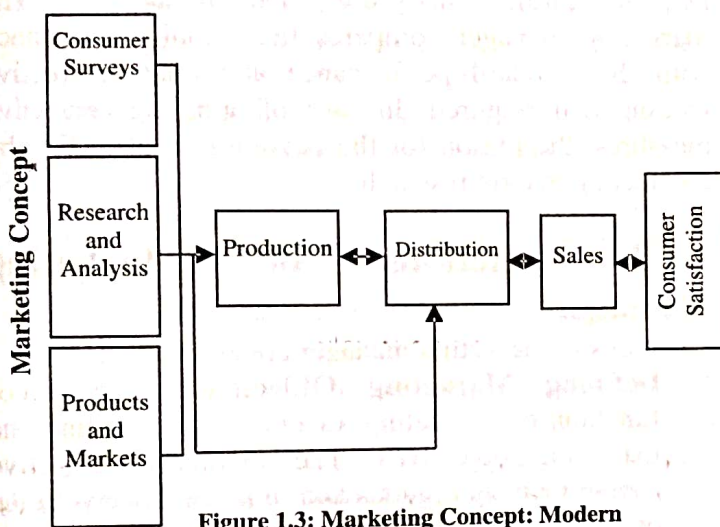


Figure 1.3: Marketing Concept: Modern Concept of Marketing

Under marketing orientation, organisations should recognise the needs and wants of customers and produce desired products to satisfy the customers in the most effective manner than its competitors. Generally, people misunderstood marketing and selling concepts as the same philosophy. But there is a difference between the two. In case of selling concept, focus is on production, promotion and sales of goods and services to earn profit. Whereas, marketing concept already has a target market, it only focuses on satisfying customers' needs and wants and developing long-term relationship with them. Therefore, marketing concept is very beneficial for long-term goal-oriented organisations.

It is believed by many organisations that through customer satisfaction, success can be achieved. In accordance with this belief, only those products and services should be produced which consumers want or desire. Subsequently, it can be said that they produce what they can sell, rather than selling what they have produced. Following the same concept, marketing efforts of the organisation are carried out so as to attain customer satisfaction. The customer-oriented marketing is not just about selling of goods and services; rather it

also involves after-sale services. Under this concept, consumers' needs and wants are of utmost significance and organisation tries to fulfil all those needs and wants of customers.

The marketing orientation also has some limitations. It aims at satisfying consumers only and ignores the responsibility towards the investors, employees and suppliers or distributors, who are vital elements of the organisation. There are also few inhibiting factors which affect the execution of marketing concept like societal constraints, innovation and organisational constraints, internal disagreement, etc.

1.3. MARKETING MANAGEMENT

1.3.1. Introduction

Marketing management is a composition of two terms 'marketing' and 'management'. Where, the term 'marketing' is a set of actions and processes of a company associated with buying and selling of goods or services. 'Management' is a function of coordinating the integrated efforts of people towards a common goal by effective utilisation of available resources. 'Marketing management' is an organisational approach which focuses towards the accomplishment of marketing objectives of the organisation such as achieving customer satisfaction, securing high sales and profit, etc. Therefore, it includes various techniques and processes aimed at fulfilling all the inter-related marketing objectives.

According to the American Marketing Association, "Marketing Management is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods and service to create exchanges that satisfy individual and organisational objectives". Consequently, marketing management is the most practical aspect of business management which deals with needs and wants of consumers, determines the promotion and pricing strategies to generate demand for goods and services, new product development, aids in distribution of these products or services to final consumers, and collects customer feedback and other information regarding the customer satisfaction.

1.3.2. Marketing Management Process

Following are the steps involved in the marketing process:

Step 1: Setting Marketing Objectives: The first step of marketing management process is setting marketing objectives. While setting objectives, the organisational mission must be considered. The mission helps the marketer to conduct the proper environmental scanning and search for new opportunities.

equally important as internal cohesiveness. Therefore, maintaining sound relationship with entities such as customers, suppliers, service providers, government agencies, dealers, consultants, etc., becomes important for effective marketing. Marketing functions cannot be performed effectively without their assistance. Hence, modern marketing concepts are termed as relationship marketing.

- 7) **Marketing Research Activities:** In today's scenario of marketing, market research holds definite significance. The systematic process of collecting, evaluating and interpreting data about any marketing pertaining issue is defined as **marketing research**. All the marketing decisions rely heavily on market research. Market scenario and customer thinking can be easily understood by marketing research which in turn leads to better customer satisfaction. Therefore, marketing research information acts as a base for marketing decisions and activities.

1.4. BUILDING AND DELIVERING CUSTOMER VALUE AND SATISFACTION

1.4.1. Introduction

The introduction of new philosophies is essential for the survival and success of companies. In the current scenario, companies have become customer-centric and give full attention to their potential customers. Hence, the company should be competent enough to build and retain its customers rather than just focussing on delivering of goods and services.

Customer value refers to the maximum level of satisfaction delivered by offering the acquisition, ownership, and use of a product to the customer at the lowest possible cost. This is the only way by which companies can implement their marketing concepts. Therefore, it can be observed in the prevailing business environment that many companies are constantly increasing their customer value to attain customer satisfaction. Thus, it can be said that creating and providing high customer value is the core marketing principle.

From the customer's viewpoint, value can be defined as a trade-off between the prices paid *versus* the benefits received. In a specific value situation, when the product and the customer meet each other, the value is created. Hence, the value can be evaluated in terms of high satisfaction, low satisfaction or dissatisfaction. The services offered by the companies to the customers decide their long-term relationships.

Undoubtedly, it can be observed that value is a wider concept rather than just being a fair price. The concept of value is a multi-dimensional approach as it measures the low cost, high quality and superior services of a particular target market. Other than this, the value proposition of the company can be defined as the combination of varying considerations on service, price, or quality along with the company's image and intangible elements.

$$\text{Value} = \frac{\text{Perceived Benefits}}{\text{Price}}$$

From the above equation, it can be ascertained that when the perceived benefits exceed the price of the product, only then the customer notices the value of a product or service. A smart marketer knows that there are two ways by which the value of the company can be increased, i.e., **firstly**, by increasing perceived benefits and **secondly**, by lowering the price. However, it is suggested that the company should adopt the method of increasing benefits rather than indulging in price competition.

1.4.2. Classification of Customer Value

Customer values are classified into functional, social, emotional, epistemic and conditional values. These types of values frequently exist in acquisition of items like food, groceries, computer peripherals, games, etc. They are:

- 1) **Functional Value:** The functional value depends on the utility received by the customer from the functional, utilitarian or physical performance of the product. From the economic viewpoint, functional value is related to the economic utility theory. The main attributes of such a value includes price, durability and reliability of a product or choice. **For example**, when a person is purchasing a scooter, he has the purpose of travelling.
- 2) **Social Value:** Here, the value of a product is determined by the benefits received by one or more consumer choices and social groups. The social value is attained when a consumer conveys a positive or negative feedback of a product to the reference groups, i.e., demographic, socio-economic and cultural-ethnic groups.
- 3) **Emotional Value:** An emotional value of a product is attained by a marketer only when he is able to stimulate the emotions and feelings of consumers. When a product relates with the feelings or triggers the emotions correctly then the emotional value is created because many times customers' responds emotionally.
- 4) **Epistemic Value:** Epistemic value refers to the benefits that are perceived from the product's ability to provide uniqueness, develop interest and gratify the desire for knowledge, of the customers.

This value can be mainly delivered by making new purchases and consumption experiences. **For example**, if a customer changes his ice-cream flavour from vanilla to chocolate, then this shift also delivers epistemic value. As new products provide some uniqueness therefore, all marketers should make an effort to design new products.

- 5) **Conditional Value:** It is the perceived value of a product or service which is offered by the company to its customers based on a particular event or situation. Here, the utility derived by the customer differs according to the conditions. **For example**, some products have specific time or climate conditions like sunscreen lotions, raincoats, etc. Some products have once-in-a-lifetime events like buying of a first car. This type of customer value can be best offered when the product is related with the usage conditions, e.g., various automobile companies offer heavy discounts in the festive seasons to its customer with 0% interest on credit purchases.

1.4.3. Customer Value and Satisfaction

In many developing and developed countries, there is a wide range of products or brands available to satisfy the needs of the target customers or groups. The customer value of a product or service depends upon the perceptions and expectations of the customers. These perceptions and expectations can be created through family members, friends, neighbours, consumer reports, associates and marketing communications.

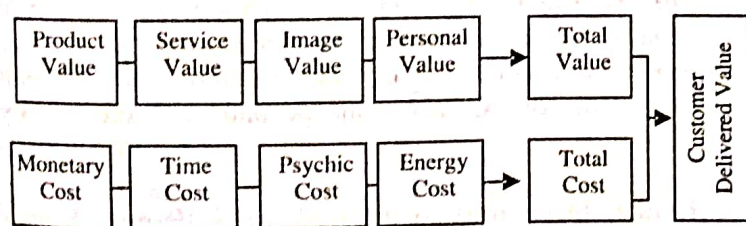


Figure 1.4: Satisfaction Depends on Customer's Perceived Total Costs and Value

The customer value can be expressed as the ratio of the perceived benefits and costs borne by the customer in exchange of products or services. Here, the main focus is on perception of the customers, rather than the evaluation of costs and perceived benefits, as the customers can never evaluate the value or cost of the product or service accurately.

$$\text{Value} = \frac{\text{Perceived Benefits}}{\text{Price}}$$

Value of a product or service refers to the level of perceived benefits (functional, economic, and emotional) that the customers are seeking at a particular cost (monetary costs, time costs, psychic, and energy

costs). However, value is mainly determined by combining the quality, cost and service of a product. The customer value can be primarily attained either by keeping the level of benefits same and lowering the costs, or increasing the benefit level while keeping the same cost, or even by increasing both the benefits and costs but keeping proportional benefits higher than the increase in costs.

Table 1.1: Relationship of Expectations and Satisfaction

Level of Expectation		
Perceived Performance Relative to Expectation	Below Minimum Desired Performance	Above Minimum Desired Performance
More than expected	Satisfaction*	Satisfaction/Commitment
Same as expected	Non-satisfaction**	Satisfaction
Worse than expected	Dissatisfaction	Dissatisfaction

*Assuming the perceived performance exceeds the minimum desired level.

**Consumer is neither satisfied nor dissatisfied.

Customer satisfaction is the level of satisfaction provided by the company on the basis of repeated number of customers. It can also be achieved when the performance of a product meets customer expectations. Satisfaction is a feeling or attitude of a customer towards the product after its consumption. In the current scenario, customer satisfaction is crucial for the company's success.

In order to achieve brand loyalty amongst customers, the company must provide higher value to its loyal customers than competitors. Basically, customer satisfaction is the degree of fulfilment, that a company should know, to which their competitors satisfy the customers and must try to exceed it by delighting its customers. The customers can be made delighted by offering them higher values which in turn can be the key factor in developing brand loyalty. Furthermore, loyalty develops a bonding which is feeling-based and not just rational.

1.4.4. Value Delivery Process

Following are the four main steps of value delivery process:

- 1) **Identifying Appropriate Customer Value Segments:** Different customers have different perceptions, values and requirements, this gives the marketer a good reason for market segmentation. With the help of thorough customer research and use of various techniques, the customers having a similar set of preferences can be identified. In similar words, market segmentation can be done on the basis of customers having preferences. It is also

1.5. MARKETING MIX

1.5.1. Introduction

Marketing mix is a very basic and important concept of marketing management. It helps an organisation in increasing sales by attracting consumers towards their products and services. So, every organisation must focus on the four elements of marketing, i.e., product, price, promotion, and place (distribution channel), in order to conduct the business more effectively. Hence, a good blend of these four elements (4 Ps) of marketing is referred to as 'marketing mix'.

Marketing mix is considered to be the heart of marketing function. A marketing manager uses these four components of marketing mix in a sensible manner in order to achieve marketing goals, such as, increasing sales and profit.

According to Borden, "The marketing mix refers to the appointment of efforts, the combination, the designing and the integration of the elements of marketing into a programme or mix which, on the basis of an appraisal of the market forces will best achieve an enterprise at a given time".

According to Stanton, "Marketing mix is the term used to describe the combination of the four inputs which constitute the core of a company's marketing system – the product, the price structure, the promotional activities and the distribution system".

The elements of marketing mix (4Ps) are used as marketing tools to promote and achieve the organisational goals. These elements are controllable variables which should be managed cautiously to fulfil the needs of defined target group.

Marketing mix is considered as a core concept or a strategy to implement marketing operations. These elements are mixture of numerous factors, which are interconnected and interdependent on each other.

1.5.2. 4P's of Marketing/Elements of Marketing Mix

All the decisions related to the product, the pricing policy, the promotion plans, and the distribution strategy, constitute to form 'marketing mix'. These four elements of marketing mix are discussed below:

- 1) **Product:** Product is the simplest element of marketing mix. This element accompanies the attributes, benefits and competitive advantage which it presents to its customers. The main aim of a product is customer satisfaction. Before marketing the product, marketer must have a clear understanding of his product.

- 2) **Price:** The next element of marketing mix is price. Price is the money value of a product or service paid by the customer. It is the most crucial element as it determines the sales volume and profit of the organisation. Variations in price largely affect the price elasticity and marketing strategy of a product. It also influences the demand and supply of products in the market. The price determination should be in accordance with the other elements of marketing mix.
- 3) **Place (Distribution):** Place is the third vital element of marketing mix. Place is defined as a state of providing the right product, in the right place, at the right time for the consumers. For this purpose, middlemen are appointed who are also known as 'channels of distribution'. These channels consist of wholesalers, retailers and manufacturers. The entire process involves an effective distribution system which assists logistical, transactional, and facilitating services.
- 4) **Promotion:** Promotion is the last element of the marketing mix. It is the technique to communicate and inform customers about the product. These techniques may include advertising, sales promotion, personal selling, direct marketing, public relations, word-of-mouth communication, etc. Promotion is the ability of marketing managers to attract customers towards the offered product. With the increasing importance of service products offered by different service companies, the existing marketing mix has been extended.

The additional elements of marketing mix include **people** (employees involved in the service delivery system), **process** (method of transaction, flow of information, and delivery of services), and **physical evidence** (the physical environment associated with the service and customer). These elements combine with the basic 4Ps and constitute the 7Ps of the services marketing mix.

1.5.3. Importance of Marketing Mix

The product, price, place and promotion combines to form the marketing-mix. Marketing manager is responsible for the designing of effective marketing mix strategy. The importance of marketing mix can be described with the help of following points:

- 1) **Linking Channel:** Marketing mix acts as a linkage between customers and organisation. It emphasises towards the fulfilment of customer needs and wants. Hence, it is a 'customer-oriented marketing'.
- 2) **Improved Sales:** The main aim of marketing mix is to design a perfect combination of product, price, place and promotion. This helps to satisfy customers and as an outcome the organisation experiences high sales and profit.

- 3) **Balanced Relation between other Elements of Marketing:** A balanced relation between different marketing components can be achieved through marketing mix. For example, pricing of a product is related to its attributes, packaging, and technology involved. Similarly, the product type would determine the type of media used for its advertisement. The nature and utility of a product decides the distribution channel.
- 4) **Helpful in Fulfilling the Needs of Customers:** The need of different types of customers is assisted by marketing mix. The marketing mix design and strategies largely depend upon the purchasing power and preferences of the customers. With the changing customer requirements, new and innovative marketing-mix strategies are adopted.

1.6. MARKETING ENVIRONMENT

1.6.1. Introduction

Environment refers to the surroundings, conditions and influences in which living organisms operate. In the similar way, organisational environment is a sum total of events circumstances and objects that influence the organisation. Therefore, it is imperative to understand the influences that the environment has over the organisation. This is possible by going through the key features of the market environment.

There are various environmental factors which directly influence the marketing activities and decision-making ability of the organisation. These factors combine to form the **marketing environment**. For example, the marketing environment for a car tyre manufacturer may include technology for manufacturing, car buyers, manufacturers, dealers, distributors, competitors, import-export policies, tax system, etc.

These are the external environmental factors which influence the company. Other than this, the company's internal environment also affects the marketing activities such as production system, finance, technology used, sales force, etc.

According to Philip Kotler, "Marketing environment refers to external factors and forces that affect the company's ability to develop and maintain successful relationship with its target customers".

With the fast changing marketing environment across India, the marketing managers and business leaders are facing many challenges. They are finding it difficult to strive with the dynamism of environmental factors. So as to remain competitive, improve market share or capture new markets, companies are adopting various IT strategies to make alterations, modifications in their products and services.

1.6.2. Characteristics of Marketing Environment

The characteristics of marketing environment are discussed below:

- 1) **Complexity:** The marketing environment comprises of several factors which are interconnected and mutually dependent on each other. Due to this, the environment becomes complex to understand. A slight variation in one factor affects the other factor immediately. Conversely, the interdependence between these factors changes according to the circumstances. Hence, it turns out to be very crucial to foresee the environment.
- 2) **Dynamism:** The nature of marketing environment is ever-changing and dynamic. Environmental factors influence the functioning of organisation because of which its form and character keeps on changing constantly.

- 3) **Multi-Faceted:** The character and form of the marketing environment can be known through insights of the viewer.

However, a particular environmental change can be viewed differently by different people.

Many times, a development is considered to be an opportunity by one organisation, while a threat by another.

- 4) **Influential Impact:** The impact of marketing environment on the organisation is comprehensive in nature.

It affects the working of the organisation in numerous ways. It plays a very crucial role in profitability and growth of the organisation.

1.6.3. Components of Marketing Environment: Factors Affecting Marketing Environment

Numerous factors affect the marketing environment of an organisation, mostly in two ways, i.e., positively or negatively. These environmental factors can be sub-divided into two groups:

- 1) Internal environment/ Controllable elements, and
- 2) External environment/ Uncontrollable elements.

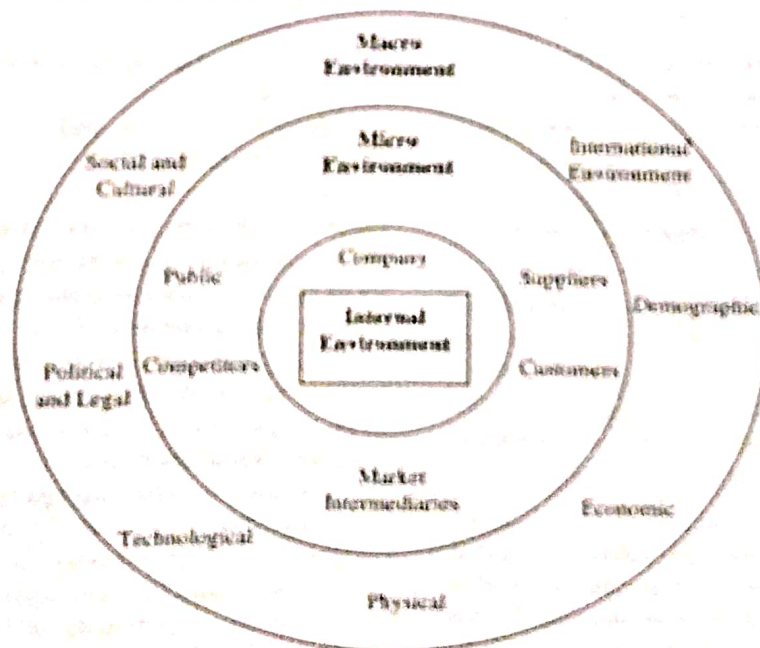


Figure 1.5: Marketing Environment

1.6.4. Internal Marketing Environment

The internal marketing environment refers to the factors prevailing inside the organisation. It also affects the marketing function of the organisation. Commonly, the internal factors are known as **controllable factors**, as these factors can be controlled or regulated by the organisation itself. They can be altered or transformed as per the changing situations, in form of physical and

personnel facility, functional and organisational means, similar to the marketing mix. The controllable factors of internal environment have the capability to control the organisational operations. These factors can be further divided into two parts, viz., strategy factors and unmarketable factors. Internal marketing environment enables the marketing managers to effectively utilise the factors present within the organisation for achieving organisational goals.

The major factors which affect the internal marketing operations are as follows:

- 1) **Top Management:** One of the major factors present in internal environment is top management. It includes organisational setup, level of professionalism in management, composition of Board of Directors, etc., which affect the decision-making process of marketing. The organisational mission and goals determine the philosophy, business areas, business policies, development plans, preferences, etc., of the organisation. The support provided by the organisational hierarchy such as Board of Directors, shareholders, and employees, towards the top management, significantly impact the marketing decisions and its execution.
- 2) **Finance and Accounting:** Finance department of an organisation acts as a source of funds to be used towards the fulfilment of marketing objectives. The factors influencing the organisational decisions, policies and operations comprises of financial situation, capital structure, financial policies, etc. Whereas, the accounting department determines the revenues and costs associated, in order to evaluate the organisational performance. Finance and accounting together constitute an important internal factor affecting the marketing environment.
- 3) **Research and Development:** The R&D department within the organisation is responsible for the development of new and innovative products with the help of available technology. This factor defines the ability of an organisation to compete, innovate and influence the marketing activities.
- 4) **Manufacturing:** It refers to the process of producing preferred amount of goods and services of high quality. The manufacturing activity involves physical assets, technology, production capacity, machinery and distribution channels, which affect the functioning of the company.
- 5) **Purchasing:** Purchasing is the activity of acquiring goods and services to attain organisational goals. It is considered as the strategic function and varies according to the needs of the organisation. Under this, availability of required raw materials, machines, parts, equipment, or supplies, etc., at required place and time without compromising the quality and quantity, is very important for the success of any business.
- 6) **Company Image and Brand Equity:** Company image refers to the company's reputation or performance in view of the public. It acts as an internal factor which may influence the marketing function of the organisation such as finance, strategic alliances, distribution channels, new

product launch, selling or purchasing, etc. Similarly, brand equity also plays an important role in some marketing activities. The effectiveness of marketing operations depends upon factors such as brand equity, channels of distribution, and marketing resources like marketing organisation and ability of marketing executives. These are also critical for new product launch and brand extension.

1.6.5. External Marketing Environment

The environment prevailing outside the organisation is known as **external marketing environment**. These factors are beyond the control of the organisation. Hence, they are referred to as uncontrollable factors such as economic factor, government and legal factor, socio-cultural factor, geo-physical factor, demographic factor, etc. Uncontrollable factors exist outside the organisation and influence the marketing strategies and plans of the organisation designed by the marketing manager.

These factors are uncontrollable in nature because of which marketing manager faces numerous challenges. As a result, the marketing manager adopts various techniques to regulate the activities of external environment such as forecasting, analysis and surveillance.

The external marketing environment can be categorised into two parts:

- 1) Micro environment, and
- 2) Macro environment.

1.6.5.1. Micro Environment

The environment in which the company thrives, or the set of factors surrounding the company itself, is known as **micro environment**. These factors are responsible for the organisational ability to develop products and services and satisfy the market needs. It also consists of those people who directly influence the growth of the company. Such factors are:

- 1) **Company:** The company aspect of micro-environment refers to the internal environment of the firm. This includes all departments, such as management, finance, research and development, purchasing, operations and accounting. Each of these departments has an impact on marketing decisions.

For example, research and development have input as to the features a product can perform and accounting approves the financial side of marketing plans and budget in customer dissatisfaction. Marketing managers must watch supply availability and other trends dealing with suppliers to ensure that product will be delivered to customers in the time frame required in order to maintain a strong customer relationship.

- 2) **Suppliers:** An important factor in the micro environment is the supplier. They supply raw materials, components and machines to the company. The suppliers should be reliable and act as business partners. They should be working in coordination with the organisation to fulfil the ultimate consumer expectations. If the suppliers are reliable, there is no need to keep heavy inventory stocks that increases the risk of obsolescence and damage and also blocks the working capital of the company.

For example, if a supplier provides a poor service this could increase timescales or product quality. An increase in raw material prices will affect an organisation's marketing mix strategy and may even force price increases. Close supplier relationships are an effective way to remain competitive and secure quality products.

- 3) **Market Intermediaries:** These are the middlemen who form part of the distribution channel and who help reach the product/service to the ultimate consumer. They can be few or many in number, depending on the length of the distribution chain and the type of distribution system that the company adopts. If this chain is hassle free and functions without any hurdle, it eventually helps the organisation.

On the other hand, if this is not true, then the company spends much time, money and energy on solving the problems relating to the marketing intermediaries. The firm must build healthy relationship with the intermediaries such that the firm and the distributors benefit in the long run.

- 4) **Competition/ Competitors:** The competitive environment consists of certain basic things which every firm has to take note of. No company, however large it may be, enjoys monopoly. In the original business world a company encounters various forms of competition. The most common competition which a company's product now faces is from differentiated products of other companies. For example, in the Colour Television Market, Philips TV faces competition from other companies like Videocon, Onida, BPL and others. This type of competition is called brand competition. It is found in all durable product markets.

- 5) **Public:** Public is also an important factor of micro environment. The satisfaction of general public should be the utmost aim of organisation as competitors and customers are all part of general public. The policies and activities of the organisations have a significant impact on other groups of the general public. A public refers to

"any group that has an actual or potential interest in or impact on a company's ability to achieve its objectives". Hence, public relation is crucial for the long-term survival and growth of the organisation. These refer to the immediate physical environment of any organisation. People, who live around an office or a factory area, exert considerable influence with regard to disposal mechanisms of waste, production practices employed, noise pollution generated, nuisance value created, etc. These people cannot be ignored or else they may also go as far as getting the business closed down.

- 6) **Customers:** Customers are the central focus of the organisation. They can be categorised into five types like:

i) **Ultimate Customers:** They can be individuals or groups of people who use or consume the goods and services of the company.

ii) **Industrial Customers:** These customers are mainly the small and large organisations which purchase goods and services to produce other useful products. Their main aim is to earn profit and attain organisational goals.

iii) **Resellers:** They can be retailers, wholesalers and distributors. They buy goods and services from one place and resell them at high prices to gain profit at some other places.

iv) **Government and Other Non-Profit Customers:** They buy goods and services, mostly for the consumption purpose of other people. These people can be ultimate customers or end users.

v) **International Customers:** They are the customers across national borders, who purchase goods and services for industrial purpose or may be for their own consumption. They can be individuals, organisations, resellers, or even governments.

1.6.5.2. Macro Environment

The factors which are not immediate environment to the organisation constitute to form **macro environment**. These factors are external to the organisation and uncontrollable in nature. They indirectly influence the marketing decisions but do not affect the marketing strategies of the organisation. The macro environmental factors that influence the marketing decisions of an organisation are discussed below:

- 1) **Demographic Environment:** Demographic environment is a fundamental element of macro environment. The most important thing which is taken into consideration by the marketers is population, since people combine to form markets. The factors which influence the business

organisation are population growth rate, population size, ethnic mix, age distribution, household pattern, education level, regional characteristics and movements.

The demographic environment must be analysed by the corporate planners and extensive features of the population which affect the organisation must be identified. If the management is attentive, it will be able to gauge the potential variation in the demographic factor and search for more attractive markets and better product lines. The most relevant factors in the demographic environment are trends in ageing geographical shift, size and literacy of population.

- 2) **Economic Environment:** Economic environment refers to those economic factors which largely influence the functioning of business organisation. These factors consist of production process and wealth distribution system. The economic environment also affects the marketing activities of the organisation. In addition to this, the market size and consumers' willingness to spend also plays a vital role in determining the economic environment. Thus, some of the other economic factors are interest rates, inflation, disposable income, savings of the society, etc. All these factors prevailing in the environment influence the purchasing power of the consumers. While, economic development leads to changes in the tastes and preferences of the customers. **For example**, due to the fall in interest rates of banks, customers find it favourable to invest in stock markets than opening savings account in banks.

- 3) **Natural Environment:** Natural environment is the group of natural resources which is used by business. It covers everything from its existing location to weather conditions that affect production and sales of a business. This natural environment is uncontrollable in nature. All the operations of the business are influenced by natural factors. For marketing managers, it is very essential to identify such factors and alter their business operations. Due to inappropriate and large scale consumption of natural resources, the ecological balance is affected, which ultimately affects the business decisions and strategies. **For example**, petroleum reserves are not abundant in India that is why these are imported from gulf countries. Organisations using petroleum products develop crucial production strategies in such situations.

- 4) **Technological Environment:** Technological environment is the macro environment, which includes factors like machines, materials, and knowledge for producing various goods and services. These factors significantly affect the

functioning of the business organisations. The advancements in the field of technology, which is used to make innovative products and enhance the operational methods which influences the business is termed as technological environment.

Recent technological developments include mobile phones, computers, laptops, metros, automobiles, and other production techniques, etc. These developments are also focused towards providing new and different products and services based on improved production techniques. It is not just responsible for economic growth but also affects the production policy of different organisations. In order to be competitive in the market, different marketers modify their products and production strategies according to the technological environment. **For example**, technological factors enabled the transformation of typewriting machines into keyboards and computers.

- 5) **Political Environment:** Political environment is defined as the governmental actions which influence the functioning of the organisation. The environment is closely associated with the economic conditions surrounding the organisation. The factors involved in this environment may be acts, policies, laws, rules and regulations, related to business and economy. Different countries have different political environment. **For example**, most socialist countries follow a centrally planned economic system. There are different laws for regulating business activities other than the financial and technical matters. The business laws consist of standards and rules set for different products, packaging and promotional activities. The Indian Government has a widespread restraining impact on different facets of the business. Various policies related to business involve industrial licensing for deciding location, production and process, import licensing for acquiring raw material and machinery, loan financing, pricing policies, growth and expansion strategies, etc.

- 6) **Legal Environment:** Legal environment refers to those factors which are associated with the legal laws and orders influencing the marketing environment. It is essential for the marketing environment to follow all the rules and regulations of the Indian Penal Code. The legal factors may include laws, constitution, legal rights, courts, penalties, and other legal practices, etc. These factors significantly influence the marketing operations of different organisations. Different legal factors attached to an organisation may also include licencing, bribery, copyrights and trademarks, and jurisdiction for organisation as well as customer related disputes, etc. Arbitration or local courts are used for dispute settlement.

1.6.7. Techniques used in Environmental Analysis

While analysing the environment, the strategists should remember to select those techniques only that match the needs of organisation from every aspect. There are many techniques for analysing the environment, among which some of the important techniques are as follows:

- 1) **ETOP Analysis/ Preparing an Environmental Threat and Opportunity Profile:** Environmental Threats and Opportunities Profile (ETOP) is a technique used to structure the issues of environment. This technique was given by **W.F. Glueck**. The ETOP categorises different environmental issues in various sectors which in turn helps the management to focus their attention towards specific areas. It helps in identifying the potential factors that influence the organisation. Diagnosing the external environment closely is very essential as it points out the opportunities and threats. While some of the factors create suitable circumstances, other factors impose threats. ETOP facilitates an in-depth analysis of environmental factors that allows the organisations to identify the potential opportunities and threats. This results in more efficient strategic planning.
- 2) **QUEST (Quick Environmental Scanning Technique) Analysis:** The QUEST or “Quick Environmental Scanning Technique” is a technique that facilitates estimation of wide-ranging environmental factors and assesses their influences on the organisation. It tries to scrutinise the environmental forces on the basis of events and trends occurring in the market.

Some of the assumptions made for analysing the environment using this technique are:

- i) The strategic executives have views about the dynamic environmental forces.
- ii) These views about the environment collectively signify the understanding of the environment by the organisation.

Hence, it can be said that having knowledge about the environmental forces can be useful only when there is a mechanism to interpret and analyse them. In the absence of a specific technique, it is possible that all the future expectations and plans go wasted, as these cannot be shared with the executives. QUEST analysis allows the executives to understand and analyse the different perceptions, interpretations and points of mistakes regarding the environment.

- 3) **SWOT (Strength, Weakness, Opportunity and Threat) Analysis:** "SWOT" is the acronym for "Strength Weakness Opportunity Threat", which outlines the current position of an organisation. It identifies that whether a company is in a good or bad market position. While the strengths and weaknesses are internal factors, the opportunities and threats are external to the organisation. Analysing all these give a complete perspective to the managers regarding the external factors that influence the organisation or may influence in future. With the help of this technique the managers can also identify the internal capabilities and resources which can be used to deal with them. This analysis also indicates the faults in the organisation that are to be corrected. Hence, SWOT analysis plays a vital role in formulating suitable strategies for the organisation.

SWOT analysis has two major components:

- i) **Internal Factors:** The first two letters in the acronym S (strength) and W (weaknesses) refers to internal factors that are the resources available in the organisation. The internal environment refers to all the factors within the control of, and inside the organisation. These factors may impart strengths which can be utilised to exploit the opportunities or become a cause of weaknesses of a strategic nature for the organisation.
- a) **Strengths:** These are the factors that provide competitive advantage to the organisation. These factors collectively may allow an organisation to bring change in an organisation. These factors can be different for different organisations. These can be resources, skills, etc.
- b) **Weakness:** Weaknesses are the factors that limit the growth of company or restrict the company from moving in a desired direction. These factors also hinder the organisation from achieving success through the internal capabilities. These factors vary as per the organisation. A weakness can be anything such as lack of resource, lack of market understanding, lack of fund, etc.

- ii) **External Factors:** External factors reside outside the organisation. These are of two types:

a) **Opportunities:** An opportunity is a major favourable situation in the firm's environment. The industry should build on its production capacity to meet the upward moving demand, both for domestic and international markets. Opportunities are those factors which act as the favourable situations for the organisation. These situations encourage the organisation to grow more and earn more profits. In these situations, organisations make strategies to reap the benefits, such as spreading market share in domestic and international markets, increasing the production capacity, launching new products, increasing prices, etc.

b) **Threat:** Threats are the external unfavourable conditions. They act as barrier for the organisation in achieving its desired market position. These factors also differ as per the organisation and the areas in which it operates.

- 4) **PEST (Political, Economic, Social and Technological) Analysis:** "PEST" or "Political, Economic, Social and Technological" analysis is one of the techniques of environment appraisal which provides a deep insight about the macro-environmental factors that affect the operations of a business. The level of importance given to these factors varies as per the industry in which a company works and the goods/services it deals in. Some strategists have increased the scope of this technique by adding two more factors into it, i.e., environmental and legal factors. Hence, the extended version of this technique is known as "PESTEL". This technique has another variant known as "LoNGPESTEL" or "Local, National, Global, Political, Economic, Social and Technological" analysis. This technique is used when the organisations are categorised as per the geographical basis.

1.6.8. Significance of Marketing Environment Analysis

The significance of marketing environment analysis is highlighted below:

- 1) **Providing Marketing Environment Information:** Marketing management largely depends upon the information related to the marketing environment. Marketing environment analysis is vital because it keeps an accurate balance between the organisation and the marketing environment by using marketing mix.