

Module 3

Product Management and Pricing

3.1. PRODUCT

3.1.1. Introduction

A product is the item that is developed and refined for sale in the market. It aims to meet the customers' needs and wants. The concept of product can be categorised into two, i.e., narrow concept and wide concept. In its **narrow concept**, a product is a combination of physical or chemical characteristics which has some utilities. It is not just a non-living object or a physical substance. A product also has other functions than its utility like satisfying customer needs and wants, e.g., fan, table, pen, cooler, chair, etc. In its **wider concept**, a product having a variety of colours, designs, packaging and brand is said to be a different product. **For example**, if a shampoo is made available in three different variants and smells, then these are three products, as they are fulfilling needs of customers with varied choices. Hence, product is defined as a complete package of benefits received by a consumer.

According to George Fisk, "Product is a cluster of psychological satisfactions".

According W. Alderson, "A product is a bundle of utilities consisting of various features and accompanying services".

According to Philip Kotler, "A product is a bundle of physical services and symbolic particulars expected to yield satisfactions or benefits to the buyer".

It is the sole responsibility of product managers to manage the products. The product management activities comprise of planning, forecasting and marketing of products or services at all stages of the product lifecycle. Broadly, it is a wide range of activities carried-out to deliver a particular product in the market.

3.1.2. Product Hierarchy

There is a hierarchical relation between different products offered to consumers. Starting from category of the need served it goes upto particular product item which actually satisfies that need. The overall product hierarchy is described below:

1) **Need Family:** This is the top most level in the product hierarchy. It describes the type of basic

need which is to be satisfied by the firm. **For example**, personal care is one 'need family' for any firm.

- 2) **Product Family:** The next level in this hierarchy is 'product family'. It includes different product classes which can be used to satisfy the targeted basic need. **For example**, need for personal care can be fulfilled by different product classes like skin care, hair care, tooth care, etc. These are the product classes which combine to form the 'product family' for the 'need family', i.e., beauty.
- 3) **Product Class:** The third level of product hierarchy is the 'product class'. It denotes the group of products having a specific functional consistency within the product family. **For example**, skin care is a product class for a particular firm.
- 4) **Product Line:** The next level in product hierarchy is 'product line'. In each product class there are few product lines. Each product line is made-up of number of closely related products. These may be closely related because of similar mode of function, similar price ranges, similar buyer types or similar distribution channels. **For example**, creams, soaps and deodorants are the product lines which come under the product class of skin care.
- 5) **Product Type:** The next level in product hierarchy is 'product type'. It denotes the total number of variants available in a particular product line. **For example**, non-alcoholic, alcoholic, strong or mild deodorants and deodorants for males and females are the product type.
- 6) **Brand:** Brand is the sixth level of product hierarchy and is referred to the name with which one or more products can be identified or recognised. **For example**, Axe is a brand of male deodorants.
- 7) **Item:** This is the seventh level of product hierarchy and is referred to a particular unit within a product line or brand which can be differentiated on the basis of its appearance, specific feature, shape, size, weight or price. This unit can also be termed as product variant, sub-variant or stock-keeping unit. **For example**, Axe black is an item used as deodorant.

3.1.3. Levels of Product

Every product has five levels. A marketer must consider these levels to achieve better customer value. These five levels are also known as 'customer value hierarchy'. The five levels of a product are defined below:

- 1) **Core Benefit:** Core benefit is the most important level of hierarchy. At this level, the customer is buying the essential benefit or service. Here, marketers are the benefit providers to customers. For example, guest of a hotel is buying rest and sleep, a woman at a spa resort is buying comfort and luxury.
- 2) **Basic Product:** In the next level, it is the job of marketer to transform the core benefit into a basic product. For example, a hotel room is the core benefit while, a bed, a bathroom, a desk, a chair, towels and a closet are the basic products.
- 3) **Expected Product:** At this level, the marketer needs to prepare an expected product. An expected product comprises of all those attributes which a customer expects while buying a product. For example, a visitor at a restaurant expects clean table, good quality food, quick services and vibrant ambience. Mostly, all restaurants try to provide these attributes, but customers also look for least expensive restaurant along with these attributes.

- 4) **Augmented Product:** The fourth level of product provides **augmented product** to its customers, which is beyond their expectations. These types of products have additional attributes and benefits which enable the customers to differentiate between the available product and other products offered by competitors.

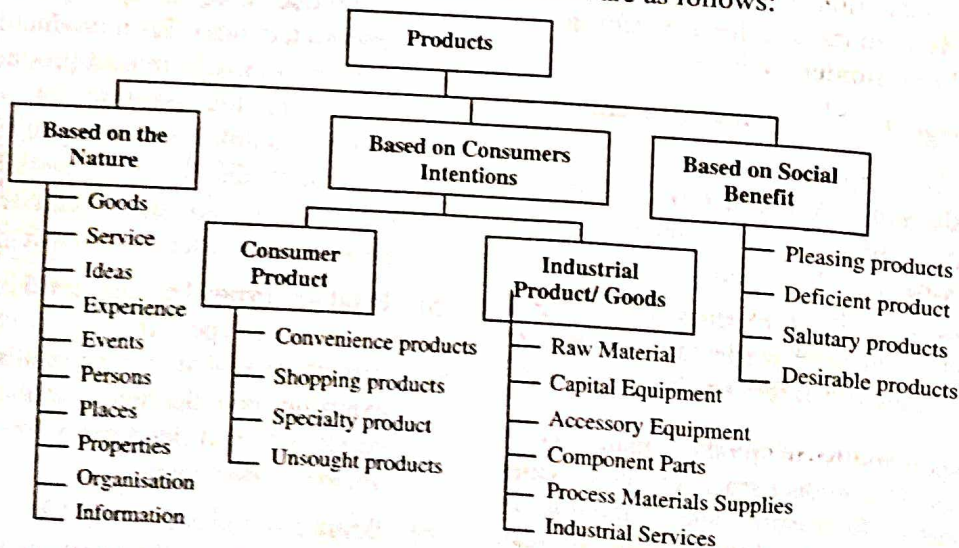
For example, a hotel may include fine dining and 24*7 room service, fresh flowers, a remote-control television set, rapid check-in and express check-out, which are all extended services provided by the hotel to build up a augmented product.

- 5) **Potential Product:** The last and the fifth level is that which offers the **potential product**. This type of product covers all the prospective alterations and extensions that the product may go under in future. At this level, the companies make most of their efforts to find out new ways to gratify their customers and offer unique products to them.

For example, an innovative transformation of the traditional hotel product can be like offering all-suite hotels where the occupant books a set of rooms.

3.1.4. Types of Product

There are diverse factors and methods to distinguish products, which are as follows:



3.1.4.1. Based on the Nature

There are ten types of products which can be classified on the basis of their nature:

- 1) **Goods:** Goods are physical and tangible materials which can be possessed and owned, e.g., wheat, bicycles, etc.
- 2) **Services:** Services are intangible in nature and their production and consumption process occurs at the same time. It cannot be owned but can be possessed after being paid, e.g., banking and insurance services, etc.

- 3) **Ideas:** For developing a product, every marketer has an idea on the basis of which production process is carried-out. Like, Charles Revson of Revlon stated that although in their factory they produce cosmetics, but in their stores they are selling hope, e.g., advertisement agency, consultancy firm.

- 4) **Experiences:** A company can create a market experience for their customers by organising various goods and services at one place, e.g., Science city, Water World, etc.

- 5) **Events:** Event also acts as a product for marketers. Events are strongly connected with the experience of people attending it. The companies realise the power of events and seek to associate their products with the event. Thus, event sponsorship is a big business as many companies try to leverage their products in the event. These events are time-based which are held in a gap of one or more years like Award functions, Olympics, etc.
- 6) **Persons:** Many marketers work as a publicity and endorsement agent for film stars and sportspersons. Here, a film star or a sportsperson is a product for the marketer. This type of marketing is commonly known as celebrity marketing.
- 7) **Places:** Different places can be marketed to promote tourism business. **For example**, tourism in Kerala was promoted by campaigning it as God's Own Country.
- 8) **Properties:** Properties are personal assets which are intangible in nature. It can be in form of real estate property (e.g., Amby Valley project) or financial property i.e., shares and bonds (e.g., Maruti or TCS IPO Campaign)
- 9) **Organisations:** In order to create a positive and dynamic company image, the organisations work actively. **For example**, Philips uses a tagline "Let's Make things Better".
- 10) **Information:** Information also acts as a product, when produced and marketed. Useful information can be provided as a product in different forms like dictionaries, encyclopaedias, etc.

3.1.4.2. Based on Consumer's Intentions

On the basis of consumer's intentions product can be classified into two categories:

i) **Consumer Products:** The goods and services which are purchased by customers for personal consumption are known as 'consumer products'. These products are classified as per the consumer's buying habits/tastes/purchasing power, etc. Consumer products consist of unsought products, speciality products, shopping products and convenience products. These products may vary from person to person and how the products are purchased and marketed.

i) **Convenience Products:** The consumer goods which are easily available and frequently purchased by consumers with minimal efforts are known as convenience goods. These are mainly household products such as wheat, vegetables, medicines, newspapers and other daily supplies. Convenience products are perishable in nature and must be consumed within few days. These goods are also known

ii) **Shopping Products:** These products are purchased on the basis of quality, price suitability and style. If a customer feels motivated towards a product then only he purchases it. These products have a high degree of differentiation and are mostly complex goods. They are durable in nature and have high unit value like cars, laptops, home appliances, furniture, etc.

iii) **Speciality Products:** These products can only be purchased from special retail stores. Speciality products are deliberate choice of consumers like alcohols, prescription medicines, etc.

American Marketing Association defined specialty goods as "goods having unique characteristics and/or brand identification for which a significant group of buyers are habitually willing to make a special purchasing effort".

iv) **Unsought Products:** These products are not known by the consumers or even if they are known, the consumers do not want to purchase them. These products are mainly of two types:

a) **Regularly Unsought Products:** The products which exist but consumers do not require them now, even though they may purchase them eventually, e.g., life insurance, medical check-up.

b) **New Unsought Products:** These are new products about which consumers are unaware. It becomes pertinent for the marketer to inform the customers about the new product and its attributes.

2) **Industrial Goods:** A product purchased for use primarily in the production of other goods is referred as 'industrial goods'. These products can be intended for resale, for commencing a business or for producing other products.

American Marketing Association has defined the industrial goods as "Goods which are destined to be sold primarily for use in producing other goods or rendering services as contrasted with goods destined to be sold primarily to the ultimate consumers".

Industrial or business products can be categorised on the basis of their uses:

i) **Raw Materials:** The production or manufacturing process requires material input. Such inputs are called raw materials. These raw materials are used directly in the production process and are the part of final product. Raw materials can be of two types, viz., agricultural products (livestock, fruits and grain) and natural products (products of the seas and forests, land and minerals).

- ii) **Capital Equipment:** Capital equipments are different tools and machines used by the firm in the production and operations process. They are referred as installations. They are long-lasting, durable and expensive machines, e.g., cranes, lathe, machineries, etc.
- iii) **Accessory Equipment:** Equipments like printers, calculators, word processors, hand tools, meters, etc., are all accessories which are used during the production process. But, they are not a part of final manufactured product.
- iv) **Component Parts:** These are items or parts, which when processed, become a component of the final product. They are a part of large product being manufactured and are easily distinguishable from the final product, e.g., engines, gear boxes, batteries, rims, tyres and tubes are all the component parts of an automobile.
- v) **Process Materials:** The process materials are directly used for producing another product. These products are difficult to identify. For example, a cosmetics company might use alcohol in manufacturing make-up or perfume.
- vi) **Supplies:** These are non-durable, low-cost, essential items which are used on daily basis. They are used to assist and accelerate firm's operations but are not a part of the final product, e.g., office stationaries, paints, cleaning material, lubricating oils, maintenance items, etc.
- vii) **Industrial Services:** Industrial services are intangible in nature and are used for performing firm's operations. These services include marketing, financial and legal services. The production process of a firm cannot be carried out without these services.

3.1.4.3. Based on Social Benefits

Based on the social characteristics, products can be classified on the basis of long-term benefits and short-term benefits, such as:

- 1) **Pleasant Products:** These products offer immediate satisfaction to the consumer but are injurious to them in the long-run, e.g., consumption of alcohol, cigarettes, pan masala, etc.
- 2) **Deficient Products:** Deficient products neither provide any immediate satisfaction nor give long-term benefits to the firm. These are non-profitable products; therefore companies are least interested in producing them, e.g., pager or typewriter.
- 3) **Salutary Products:** These products have long-term benefits but do not provide immediate satisfaction to consumers. Thus, companies are by and large inpassive towards these products. However, by applying different marketing

strategies, such products can be made attractive for the consumers in the long-run, e.g., soyabean chips (diet chips).

- 4) **Desirable Products:** Desirable products offer both long-term as well as short-term benefits to the consumers, i.e., immediate satisfaction and consumer welfare, e.g., healthy, tasty and ready-made food products. Ethical organisations try to make it a point to manufacture desirable products so that they can earn their profits as well as carry out their responsibilities towards society.

3.1.5. Product Line

A product line denotes the group of closely linked products which the organisation offers. These products are linked together as they operate in an identical manner, used by same group of customers, have similar price range, or sold via same type of retailers. For example, ITC is a major brand producing several product lines including personal care, lifestyle retailing, education and stationary, etc. Product line is very different from product bundling, where few items combine to form a single product.

The fundamental basis of all the products in a product line is same. Therefore, a good marketing plan is sufficient to improve the sales of all the products in a product line. Generally, different products with different prices are offered in a product line. In this way, the organisation makes sure that all its products under the product line are picked up by every type of customer. The act of introducing a new product in the present product line is called as 'product line extension'. Primarily, the idea of product extension is used to avert competition. The motive behind launching products similar to that of competitors, is keeping the customers attached to the brand they are loyal to. Usually, people tend to buy products from known brands. Thus, in case of buying any new product, people prefer to purchase it from known brands rather than from any unfamiliar/unknown source.

Forms of Product Line Decisions

Marketers encounter several difficult decisions on product line featuring and product line length while establishing product line strategies. These product line decisions are discussed below:

- 1) **Product Line Length Decisions:** By including more items in the product line, if the profit increases, the product line is said to be too short. On the other hand, by eliminating few items from the product line, if the profit still increases, the product line is said to be too long. The length of any product line of an organisation is determined by its objectives. One objective may be to enhance the sales. For example, the famous brand BMW tries to encourage its customers to shift from the current

BMW 3 series to the next level of BMW 5 or BMW 7 series. Another objective may be to promote the cross-selling. For example, computers as well as printers are provided by Hewlett-Packard. Protection against economic uncertainties may also be the objective of an organisation. For example, the popular brand GAP has several outlets under its flagship like Old Navy, GAP, Banana Republic, etc., which offer products of various price ranges to absorb the economic changes taking place globally. A product line can be expanded by two methods namely: line stretching and line filling:

i) **Product Line Stretching Decisions:** The product line offered by all companies includes specific variety of items out of the complete range of products furnished by the entire industry. For example, Maruti deals with automobiles of the most economical or moderate price range in the automotive industry. If a business entity expands its product line over and above the present array, it is termed as 'line stretching'. Line stretching can be exercised in the following three ways:

a) **Downward Stretch:** Several organisations start with offering most expensive products in the market and gradually try to extend at lower levels. For example, TATA Motors deals in midsize and high end utility car segment. It has extended its product line downwards by venturing into the small vehicle segment through launching TATA Nano. The key reasons for downward stretch are as follows:

- The organisation involved in serving high end market faces tough competition and decides to cater low end market to deal with competitors.
- Presence of poor growth rate in the high end market.
- The organisation includes a low end division to avoid the entry of new competitors.

b) **Upward Stretch:** Organisations serving low end market may intend to move into the high end market. High level profit margins, elevated growth rate or an opportunity to feature as a full-line producer may be few reasons which may tempt organisations to enter the high end market.

For example, initially Maruti was known to produce low end cars, but it moved into the high end market with the launch of Maruti Esteem and Maruti 1000. The decision of upward stretch is also risky. The well-established high end competitors may respond by plunging into the lower

end market. It is not easy for sales executives as well as for suppliers/vendors to effectively perform in the high end market without proper skills and training.

c) **Two-way Stretch:** The organisations belonging to the mid-level of the market can extend their product line in any one way out of the two options available, i.e., either upwards or downwards.

ii) **Product Line Filling Decisions:** Product line extension is also possible by including new products in the current product line. To achieve gradual increase in profit levels, to persuade the agents with regards to the criticism faced due to decrease in sales because of the products not being present in the current product line, to make use of the surplus capacity available, to become market leader in the full-line segment, to block the loopholes to control the competitors, are the few reasons behind product line filling. Excessive product line filling may confuse the consumers and consequently reduce the sales of other products. Each item needs to have a distinct place in the consumer's mind. The distinctness of each product should be thoroughly significant. The new product recommended should have an advantage in terms of increased market acceptance and should not be included to reassure the internal requirements of the company.

2) **Product Line Modernisation Decisions:** Here the product, a part of the product line, is revised and re-launched to meet the contemporary styling requirements and preferences. Product lines should be updated as per the latest trends in the market. This process of modernisation can be, in terms of the technology used for the production of the product or the appearance or style of the product. Many companies have adopted the modernisation process. For example, new look of 800cc car developed by Maruti, variety of PC chips developed by Intel, launch of Splendor plus in place of the older Splendor model by Hero Honda, etc., are the significant examples of the modernisation decisions. It is a strategy where the company introduces new items in place of old ones dropped out. Product line modernisation is a constant process in today's fast transforming product market. The consumers are inspired to shift their preferences towards expensive and high-end products due to constant improvements formulated by the companies.

3) **Product Line Featuring Decisions:** This is all about deciding which product(s) to feature in the organisation's product line. The manager deciding

the product line strategies picks up one or more products from the product line to represent as a flagship product or a prominent item of the line to increase the demand. This kind of decision is taken in case of presence of several non-profitable items in the product line. Thus, line featuring is helpful in elevating the sales volume of the organisation. **For example**, Dream Service is the current focus of marketing campaigns of Honda.

- 4) **Product Line Pruning Decisions:** This strategy finds out the products which are poor performers in terms of profit earning potential in the product line and removes them from the line to increase the earning potential of the company. This process decreases the length of the product line. This process is adapted by the company when it is unable to earn the expected profit levels or when a specific pattern is not well received by the customers or no longer beneficial for the growth of the organisation. Pruning decisions can be taken to make physical or human resources available for other capable models which are being utilised by the unproductive model.

3.1.6. Product Mix

A group of all product lines and commodities supplied by a seller to its customers is called 'product mix'. It

3.1.6.1. Product Mix Decisions

The product mix of an enterprise has particular length, width, depth and consistency. All these factors are explained below with the help of an **example** about product mix of Hindustan Unilever Limited:

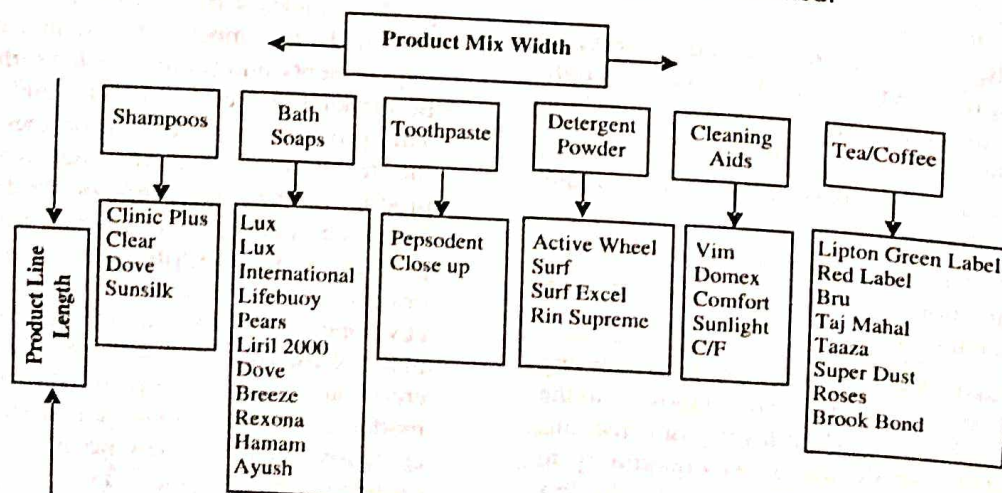


Figure 3.1: HUL Product Mix

- 1) **Product Mix Length:** The total number of products comprising the product mix is termed as the product mix length. Several brands are part of each product line offered by Hindustan Unilever Limited. **For example**, product mix consists of ten soaps, four shampoos, two toothpastes, six laundry detergents, etc.
- 2) **Product Mix Width:** The number of product lines offered by a company denotes the span or width of the product mix. HUL offers a considerably extensive product mix which consists of several product lines dealing in cosmetics, food, household cleaning products, paper, medicines and personal care products. The product mix width of HUL is

can also be termed as 'product assortment'. A product mix is offered by a company which has many product lines under its tag. Generally, it is not necessary to have correlated items in a product mix. Thus, product mix is a mixture or combination of all the products made available by a firm to its customers. It can also be termed as "a compilation of the various products produced or marketed by a company". **For example**, a company's product mix consists of shampoos, detergents, soaps, etc., produced by it.

According to American Marketing Association, "Product Mix is the composite of products offered for sale by a firm or a business unit". **For example**, if an enterprise manufactures or deals with different varieties of soap, oil, toothpaste, toothbrush, etc., the group of all these products is called 'Product Mix'.

The product mix of a company can be strengthened to satisfy the fresh requirements of customers or group of customers so as to help the organisation develop and progress. Expansion and inclusion of products leads to an exhaustive marketing budget for the company. This addition may cause competition by the similar brand in the market and overlapping of marketing strategies. **For example**, the Dodge Challenger and the Ford Mustang are strong rivals in the car industry but each one attempts to satisfy consumer requirements.

represented by five product lines in the figure 3.1. There are several other product lines which are part of the product mix of HUL.

- 3) **Product Mix Depth:** Different forms of products available in the product line define the depth of the product mix. It is understood that the various types of products available in the product line form the product mix depth. For example, the famous toothpaste 'Close up' is available in three types namely; blue, green and red and in 5 sizes, it can be concluded that the depth of Close up is 15. In case of HUL, the average of various kinds of product groups offered under the brand name need to be calculated for computing the average product mix depth.
- 4) **Product Mix Consistency:** The close association of the product line in terms of the final consumption, product distribution networks, manufacturing requirements or any other possible ways, decides the consistency of the product mix. As HUL majorly deals in consumer goods, all product lines have maintained required consistency level because of similar distribution networks.

3.1.6.2. Product Mix Strategies

The major product mix strategies required to be managed are explained below:

- 1) **Product Line Expansion/Contraction:** A collection of many product lines is termed as concentration of product mix. An extended and lengthy product line is cut back to remove the products which are not cost effective. Extending the current product line is termed as diversification. Widening the depth and width of the product mix can help the organisation in availing the prevalent opportunities in the market. For example, companies dealing in audio equipment manufacturing can expand its activities by manufacturing television sets. There may be additions or deletions or even both in the current product lines by an organisation. Application of latest and ultra-modern technology helps a company to have an upward stretch or it may settle for a downward stretch by using lucid technology.
- 2) **Product Modification:** This product mix strategy talks about modifying or altering the basic features of a product namely; shape, size, style, cost, colour, etc. A company usually considers modification method when it is striving to revive or strengthen the demand of a particular product. At times, simply an external alteration is necessary in a product or in the current product line. The modification being tangible or intangible can be accomplished by re-creating, re-developing, altering size and including or eliminating some characteristics related to the product. For example, popular pan masala brand, Pan Parag, launched

small packets offering different quantities and at variable costs to gain access to different market segments and to increase its market area. Also, diverse growth was observed in the market share of the product when the company planned to include tobacco, i.e., zarda, in the pan masala. Several factors like organisational objectives in the long-run, competitive growth observed in specific product market and consumer needs and priorities majorly influence the product modifications.

- 3) **Product Elimination:** It is always not possible to refine or change products to complement the market requirements. On such cases, removing these products from the market can prove to be a beneficial option. The activity of removing the product is known as 'product elimination' in technical terms. This activity of elimination or deletion can be for the whole product line or for a specific item of the product line.

Products with non-profitable scale of production and poor cost-inventory analysis (due to low demand) are generally eliminated from the market. The profit levels may not justify the unreasonable management time consumed by such product. Since, these products are obsolete they may lower the company's reputation. Therefore, elimination decision is very crucial in such cases.

3.1.7. New Product Development

The goods and services that vary considerably in terms of their attributes or intended usage in contrast with the goods manufactured previously by the same firm are termed as 'new products'. It is a difficult task to define a new product. It involves novel ideas and offerings which are entirely different and new for the customers. Moreover, the relative view is considered highly useful in defining a new product, as the potential consumers who will be using the product for the first time, may identify opportunities or problems for consideration.

The concept of a new product is highly multi-dimensional, which has capabilities of satisfying the wants of desirous and interested stockholders. It also provides strategic competitive advantage to significant number of interested consumers.

This also leads to significant opportunity for a firm to create value in the competitive market. There are various perspectives from which a new product could be defined. The following definitions are significant among them:

According to Musselman and Jackson, "A product is said to be a new product when it serves an entirely new function or makes a major improvement in a present function".

According to Kotler, "New product mean original products, improved products, modified products and new brands which are developed by the firm through its own research and development efforts and includes those products which the consumers see as new. A new product is thus perceived differently by different people. It is a need satisfying concept with benefit for buyers bundle of need satisfying features; for marketers, a way to add value; for intermediaries, an opportunity to design; for R&D and to assemble and process for production department".

After product planning, the next step is **product development**. The process of identifying the probability of producing a product is called product development. Under this process, the feasibility and profitability of producing a new product is assessed before making a final decision.

According to Limpson and Darling, "Product development involves the adding, dropping, and modification of item specifications in the product line for a given period of time, usually one year".

New product development involves all the phases and functions in launching a new product or service. The process starts with emergence of a new idea and ends with the commercialisation of new product in the market. New product development encompasses competitive pressure, cost challenges and increased consumer expectations which helps the firm to develop an enhanced and better-quality product for the market. Through acquisition or development, a firm can introduce new products in the market. The following are three forms of acquisition:

- 1) By buying other companies,
- 2) By acquiring patents from other companies, or
- 3) By purchasing license or franchise from another company.

3.1.7.1. New Product Development Process

New product development is an **eight step process** which involves all the key elements required for developing a product. These steps are beneficial in getting information input and decision-making while developing a new product. Other than this, market research also plays a crucial role in the process. The process of new product development is as follows:

- 1) **Idea Generation:** The most vital and first step of new product development is gathering and evaluating new ideas to reach the potential product options. Idea generation is considered as an on-going process for many companies involving the assistance from internal and external sources of the organisation. Several market research techniques are applied to boost ideas such as running focus groups with

customers, organisation's sales force and channel members, encouraging customer suggestions and complaints *via* website forms and toll-free telephone numbers. This can also be done by and gaining insight on product development activities of competitors through secondary data sources. Brainstorming is one of the significant research techniques used to generate ideas, where different creative thinkers collect to share their ideas and thoughts. These will help the group members to generate one idea out of another which may lead to a wide range of new products.

- 2) **Screening of the Idea:** In this step, all the ideas generated in the first step are analysed and the best possible one is selected for new product development. Working on non-feasible ideas may be costly and risky for an organisation. Hence, the ideas generated above are evaluated effectively by the company personnel to select the most feasible idea. The screening of ideas primarily depends upon the number of ideas generated, based on which the screening process may be held in rounds like the first round comprising of judgements of ideas by company executives, whereas other successive rounds may involve advanced research techniques.

After the selection of few attractive ideas, a rough estimate of an idea is made, which includes its potential in terms of sales, profit, production cost, competitor's response, etc. If the ideas are suitable then they are moved to the next stage of new product development.

- 3) **Concept Development and Testing:** Once the marketer has finalised few ideas, he initiates towards the attainment of initial feedback from the customers, its employees, and distributors. These ideas are then represented to the focus groups through storyboards, board presentations, etc.

For example, the customers may be shown the product concept by drawing the product idea on the whiteboard or an advertisement introducing the new product. They may also be presented with mock-up of ideas which may not be the actual functional version of the product idea.

The most feasible ideas selected by the organisation are put forward to the target audience. What do they think about the idea? Will it be practical and feasible? Will it offer the benefit that the organisation hopes? Or have they overlooked certain issues? It is not a working prototype, but just the idea or concept that is presented to the target audience.

4) **Marketing Strategy and Development:** After concept testing, a primary marketing strategy plan is developed. A marketing strategy is used to launch the product into the market. For this, a comprehensive plan is laid down including the marketing mix strategy, segmentation, targeting and positioning strategy, with the expected sales and profits. The marketing plan can be categorised into three parts:

- i) Firstly, the marketing strategy discusses the structure, behaviour and size of target market, the planned positioning of new product, estimated sales, market share and profitability goals to be achieved in the initial years.
- ii) Secondly, the strategy outlines the distribution strategy, planned price and marketing budget for the first year.
- iii) Lastly, the plan defines the sales and profit in the long-run and also the marketing-mix strategy for future.

5) **Business Analysis:** In this stage, the large numbers of ideas are condensed to one or two ideas, by the marketer. During this stage, market research is used extensively to analyse the viability of product ideas. (In many situations, a product remains only an idea, if not found viable). The main aim of this step is to find out the valuable estimates of market size (i.e., total market demand), operational costs (i.e., production costs), and financial predictions (i.e., sales and profits). Moreover, it is most significant to determine if the product is suitable for company's overall mission and strategy.

The market research can be directed in two ways, i.e., internal and external. Internal market research may involve discussions with production and purchasing personnel whereas, external market research comprises of customer and distributor surveys, secondary research, competitor analysis, etc. Other than all this, the organisation must also scrutinise the financial viability of the product in the long-run such as cashflow generation, production cost, market share of the product and expected product life cycle.

6) **Product and Marketing Mix Development:** A prototype of the product is produced at this stage. Before launching the prototype in the market, it must clear all the tests and then finally the product is offered to the target audience. While doing business analysis, the suggestions and ideas are given due consideration. The initial design or prototype of that idea is then developed by the research and development team. The marketer also designs a marketing plan for the idea, and once the prototype is ready, it is introduced to the customers. Unlike the concept-testing stage, in

this stage the customers go through the actual product or idea and its related aspects such as marketing mix, distribution channels, etc. On the basis of customer reactions about the product, marketer is able to take decisions for the final market launch while, considering the purchase rates and customers' needs and wants.

7) **Test Marketing:** The word 'test' refers to examination or trial. Test marketing is defined as the process of testing a product before it is commercialised in the market at large scale. Here, test marketing is also known as field testing. This provides a better understanding of the market and marketing considerations like nature of demand, competition level and consumers' needs and wants. Test marketing of a product is done within a particular market area so as to monitor the marketing mix strategy and if required, it is revised before launching it nationally.

8) **Commercialisation - Launching the Product Service:** Once the product passes the test marketing stage, then the product goes for national launch. However, few factors are considered before finally launching the product in the market such as time and place of launching, whether it will be launched nationally or regionally, how it will be launched, etc. Some of the organisations prefer introducing the new products region by region. This helps the organisation to manage its production activities in an effective manner and also improvise the marketing mix while, approaching a new region.

3.1.7.2. Why New Products Fail: Failure of New Products

Every organisation has to significantly devote time, money, skills and energy to innovate and develop a new product. Irrespective of the efforts put by the organisation, the new product may experience failures. A product failure crucially affects the organisation in terms of time, money, brand image and motivation level of employees. Therefore, it is very important to determine the reason behind the failure of a product.

Some of the reasons are as follows:

- 1) **Over-estimation of Market Size:** A product will not be able to perform in the market, if the market size is over-estimated. This may lead to less revenue generation than the desired level, even if the quality of the product is good.
- 2) **Under-estimation of Market Competition:** When a marketer fails to estimate the actual competition level and competitors' strengths, then the product may have to deal with severe competition in the market. This often leads to failure of new products.

- 3) **Inadequate Market Research:** If a marketer is unable to study the market and makes erroneous predictions about the customers' needs and wants, then this may fail to satisfy the potential customers.
- 4) **Lack of Uniqueness:** If a product is incompetent in comparison with the competitor's product, then customers have no reason to purchase a new product.
- 5) **Poor Product Design:** A poorly designed product may cause inconvenience to customers in using the product. This is one of the major reasons of customers' dislike about a product.
- 6) **Lack of Superiority:** It is essential for a product to prove itself superior in contrast to other similar products available in the market. Sale of new products cannot be made on the basis of superfluous claims made by the marketers. Hence, leading to the failure of new products.
- 7) **Incorrect STP Approach:** A product may fail to capture the market, when a marketer incorrectly segments the market, targets the target audience and positions the new product.
- 8) **Technical Issues:** While using a new product, if a customer faces any technical issues, then he may discontinue purchasing the same product again.
- 9) **High Production Costs:** When the price of a product is high compared to the other products in the market, then this may lead to product failure. This occurs, when the actual production cost exceeds the expected production cost.
- 10) **Wrong Entry Timing:** If a new product enters the market at the wrong time by making hasty decisions or by entering late in the market, then also the product may fail to establish its position in the market.
- 11) **Ineffective Promotion:** Ineffective utilisation of promotional tools lead to new product failure. The customers remain unaware of the product's attributes and functions, due to which customers do not purchase the product.

3.1.8. Managing Product Life Cycle (PLC)

All the products have a particular duration of life, similar to human beings. As human has different stages of life (like birth, growth, aging, and death), product also passes through several definite stages, which can be easily identified by marketers. Right from the time of concept generation, during product development, and upto the time of product launch, the product is said to be in its pre-initial stage. The life of the product starts with its introduction into the market. It then experiences a rapid expansion in its market. This stage is followed by steady growth of the product resulting in its maturity. Subsequently, there comes a stage, when the market for the product decays and finally its life ends.

Product life cycle can be defined as "the change in sales volume of a specific product offered by an organisation over the expected life of the product."

According to Phillip Kotler, "The product life-cycle is an attempt to recognise distinct stage in the sales history of the product".

According to Arch Patton, "The life-cycle of a product has many points of similarity with the human life-cycle; the product is born, grows lustily, attains dynamic maturity then enters its declining year".

According to William J. Stanton, "From its birth to death, a product exists in different stages and in different competitive environments. Its adjustment to these environments determines to great degree just successful its life will be".

The concept of product life cycle (PLC) is used by marketers to design a series of strategies for dealing with each and every stage, the product passes through. For a product, market conditions change with the change of its position in the PLC, therefore, it must be managed through effective strategies.

3.1.8.1. Stages of Product Life Cycle

Generally, product life cycle graph is a bell-shaped curve. This curve consists of following four stages:

- 1) **Introduction:** Introduction stage is the stage at which product is introduced into the market. This stage is characterised by presence of slow sales growth. There is no scope of profit generation, as it takes time to balance the product launch expenses with its sales. Among the different stages of the PLC, the introduction stage is the most costly stage as it consumes a large amount of investment. Research and development, market testing, initial promotion, etc., are the areas where a huge investment is needed, particularly, in a competitive market.
- 2) **Growth:** This is the stage wherein the product gains quick acceptance in the market and starts generating profit. The rapid growth in sales and profit is the key feature of this growth stage. As the organisation attains economy of scale in the production, it is able to generate profit from the sales of the product. This profit margin keeps on increasing as the organisation maintains the economy of scale. This growth enables the organisations to invest more in promotional strategies to get the best from the growth stage.
- 3) **Maturity:** In maturity stage, a level of maturity is reached in a product's sale as it has now been accepted by most target customers. The profit generated by the product is stabilised or may decline due to enhanced competition. In this stage, the main objective of marketers is to sustain the

market share that the product has built up. This stage is the most crucial stage in any product life cycle, and the marketers need to make wise and mature decisions regarding marketing of the product. For gaining competitive advantage, marketers may rely on product modifications or alterations in the production processes.

- 4) **Decline:** This stage is marked by sales going down and profits decreasing drastically. Here, the product loses its position and makes a way for a new product to enter into the market. In this stage, the market share of the product starts decreasing, and

that is why, it is called decline stage. This decline could be because of the market being exhausted (i.e., all the consumers who could purchase the product are already in possession of it), or due to the switching of consumers towards a different product.

- 5) Being unavoidable, this stage may force the organisation to withdraw its product from the market. However, organisations may still generate profit by adopting low-cost production processes and targeting cheaper markets.

| Characteristics of Different Stages in Life Cycle | | | | |
|---|---|------------------------------------|---|--------------------------------|
| Characteristics | Introduction | Growth | Maturity | Decline |
| 1) Marketing Objective | Attract innovators and opinion leaders to new product | Expand distribution & product line | Maintain differential advantage as long as possible | Cut back, revive, or terminate |
| 2) Industry Sales | Increasing | Rapidly increasing | Stable | Decreasing |
| 3) Competition | None or small | Some | Substantial | Limited |
| 4) Industry Profit | Negative | Increasing | Decreasing | Decreasing |
| 5) Customers | Innovators | Affluent mass market | Mass market | Laggards |
| 6) Product Mix | One or two basic models | Expanding line | Full product line | Best-sellers |
| 7) Distribution | Depends on product | Rising number of outlets | Greatest number of outlets | Decreasing number of outlets |
| 8) Promotion | Informative | Persuasive | Competitive | Informative |
| 9) Pricing | Depends on product | Greater range of prices | Full line of prices | Selected prices |

3.1.8.2. Strategies Across Stages of the PLC

Product Life Cycle or PLC serves as a useful yardstick for marketers to analyse a product's demand in the market and understand prevalent market conditions in different stages of its cycle. PLC describes the changes in marketing environment, demand and supply of the product, consumer understanding and the extent of competition in the market, therefore, it is of utmost importance that marketers should change their marketing strategies and the marketing mix, as per these changes. Strategising is essential for the good health of any firm. A good strategy helps in performing various actions and achieving required results which otherwise would not be possible. The PLC as a concept plays a major role in the development of a marketing strategy. Four stages are there in every PLC, i.e., introduction, growth, maturity and decline stage. Each and every stage of the PLC dictates the market condition and its response to the product in terms of volume of sales or profit. The strategy to market a product keeps changing over its life cycle. Generally, for each stage of the PLC, there is a corresponding set of marketing tactics:

- 1) **Introduction Phase:** The introduction phase is the phase of launching a product into the market. In organisational terms, characteristics of this phase are huge costs of operations stemming from inefficient levels of production, extended duration of learning, resistance by the established trade to

accept a new product in the market, distributors and resellers demanding higher margins with longer credit periods, and need of extensive advertisement. Large amount of investment is needed to counteract this situation. Being new in the market, the product faces the problem of credit as well. Therefore, lot of cash is required in this stage.

The features of this initial stage are:

- Newly introduced product type.
- Unawareness regarding the product among the consumers.
- Appropriate capitalisation holds the utmost importance.
- Initially, the sales in industry are insufficient, but increases gradually.
- Generally, no profits are generated.
- Primary demand for the product is generated through advertising.
- Marketers focus on developing awareness and providing trial for marketing of the product.
- Sales promotion activities are used to set off product trials in the market.
- Nothing is known about the product.
- Usually, the price of the product is high.
- Market placement is selective.
- The promotion of the product carries a lot of information and is generally personalised.

According to P. Kotler, in introduction stage, the management of an organisation may follow any of the following four tactics on the basis of high-low promotion and price:

- i) **Rapid Skimming Strategy:** For consumers with low awareness about products, the best strategy is the rapid skimming strategy of high promotion and high price. This strategy also works best when consumers who are aware about products are willing to pay any amount of money to purchase them. During the launch of a product, marketers wish to balance the costs incurred in the launch phase of the product by rapid skimming strategy. Rapid skimming strategy also works with products having large market size or when the level of competition is severe. Products belonging to the category of non-durables and consumer electronics generally prefer this strategy. This is why, the pricing of consumer electronic items such as computer games, music systems, TV, etc., are initially kept high to cover the high cost of production and then subsequently decreased to sustain the market share.
- ii) **Slow Skimming Strategy:** The essence of this strategy is that the company has enough time to balance the expenses incurred during the product's pre-launch period. In this case, the product is launched by the company at a high price but a comparatively lesser amount of money is spent on the promotion. This leads to greater profits being made by the company as the price of the product is high but the marketing cost is low. This occurs when the level of technology used by an organisation is extremely advanced and its competitors have to invest heavily to build up this technology. Moreover, as most of the firms may not have the necessary resources to compete, competition is limited to one or a couple of large firms. Slow skimming strategy is also utilised in the case of limited market size and consumers are aware and ready to buy the product.
- iii) **Rapid Penetration Strategy:** A company using this strategy charges low prices and spends quite a lot on promotional activities. The rapid penetration strategy can be implemented on the same grounds and conditions of the environment as that of the rapid skimming strategy. The sole difference between rapid penetration and rapid skimming strategy is embedded within the long-term objectives of the company. If the long-term objective of the company is to achieve market share and profit maximisation while the market is characterised by severe competition and other entry barriers, in this case, a firm can use this strategy.

iv) **Slow Penetration Strategy:** In this strategy, a company launches a new product at a comparatively lower price, and spends lesser money on promotional activities. This lower price helps the company to capture the market while the low expenditure on promotion helps the company to earn more profits. In case of conditions like large market, low level of competition, product being familiar in the market or market being price sensitive, this strategy may be fruitful.

- 2) **Growth Phase:** Having crossed the introductory phase, a product reaches the growth phase. It has to be said that the introductory phase is the most critical phase for a product, as majority of products (more than 95%) are not able to survive in this phase. Nonetheless, the lucky 5% of the products, which make it to the growth phase, encounter more intense competition here. Consumers are offered variety of product types, with different packaging and pricing due to this increased competition. Consequently, the number of customers for products increases, which extend the size of the market. Trade channels now show an acceptance of the product and are willing to stock and deal with it. As more people in the trade are dealing with the product, lowering of prices is commonly noticed.

The features of this growth stage are:

- i) Sales increase rapidly.
- ii) The profits are generated, raised and start declining at the end of this phase.
- iii) The company focuses to promote the product shifts from primary demand to selective clients' demand only.
- iv) The familiarity and consumption level of the product is high.
- v) As more players are attracted in trade of the product, the price begins to decrease.
- vi) A more widespread placement of the product takes place.
- vii) The focus of the promotion is on the development of the product brand and product image.
- viii) The organisation emphasises towards market share development.

According to P. Kotler, the following strategies may be used for sustenance of the market growth:

- i) Improving the quality of the products.
- ii) Addition of new attributes to the product and an improvement in styling.
- iii) Selecting new channels of distribution.
- iv) A reduction in the prices to lure buyers.
- v) Increasing activities related to promotion.
- vi) Entering new segments of the market.

3) **Maturity Phase:** Products surviving the intense competition in the growth phase and winning the customers' approval, reach the maturity phase. This maturity phase is marked by a decrease in the growth rates of profits and sales. A price and promotion war emerges during this stage due to immense competition. The demand for the product multiplies manifold during this phase as an increasing number of customers become interested in the product. Lowering of profit level may also be seen during this phase. The features of the maturity stage are:

- i) The sale of the product reaches to its maximum, but then levelling off occurs.
- ii) Profits of the industry slowly shift towards declining phase.
- iii) There is an increase in the level of competition.
- iv) There is an increase in promotional costs as demand for the product becomes selective. Organisations commonly utilise sales promotion tools to facilitate brand switching. It is quite common for companies to motivate customers to change their old consumer products for new ones.
- v) Price competition increases due to increased homogeneous products.
- vi) Organisations focus on brand differentiation.
- vii) Diversification of brands as well as models occurs.
- viii) Other products made by the competitors are available as alternatives in the market.
- ix) It is not wise to enter a new market in this phase. As profit margins are limited in this phase, it is not appropriate to spend money on capturing market share. Therefore, organisations focus on retaining market share.
- x) Companies maintain efficiency all around to survive during this phase.
- xi) The prices are at their lowest level.
- xii) There is intense placement.
- xiii) Different promotional strategies are designed to enable repeat purchasing.

To manage effectively, the marketing manager must focus on:

- i) Improving the product's quality.
 - ii) Increasing the usage among the present customers by exploring new and different utilities of the product.
 - iii) Trying to change non-users into users of the product, i.e., forming new buyers.
 - iv) Devising effective promotional and advertisement programmes.
- 4) **Decline Phase:** The decline phase is the final stage in the life cycle of a product. Profits and sales continually decrease during this stage. Technological developments, changes in the tastes and preferences

of consumers, development of new products with comparatively low price ranges, and new fashion trends are the major reasons behind the lowering of the sales. If the alternatives available in the market are latest in fashion and are more eye-catching, buyers will probably turn their attention towards them. The features of this decline stage are:

- i) The product is confronted with lesser competition as the number of competitors declines.
- ii) The volume of sales of the product drastically decreases.
- iii) The price of the product is also expected to reduce drastically.
- iv) There is selective placement.
- v) The focus of the promotion is on sustaining the loyal customers.
- vi) Profits decline and gradually are reduced to none.

According to Stanton, for generating profits, cost control is very crucial. The different alternatives available for cost controlling and generating profits are as follows:

- i) Ensure that the production and marketing programmes are as effective as they can be.
- ii) A regular revision of all the organisational products is necessary to identify which models and sizes are selling and making profits. The ones which are lagging behind should be done away with. Often, this strategy will bring about a decline in sales, but a rise in profits.
- iii) Improve the functions of the product or rejuvenate it, in some sense.
- iv) "Run out" the product, i.e., reduce each of its costs to the minimum level which will cause it to earn optimum profit over its remaining limited life.
- v) One option may be to abandon the product.

3.1.9. Packaging of Product

An end consumer always receives the product inside a cover, container or wrapper. It is termed as packaging. It is an essential element of the product presentation. It resides with the product until a customer does not buy it from a retail outlet. Packaging and packing should not be used interchangeably. **Packaging** is the material used to cover and safeguard the product. Whereas, the method of enfolding or covering products into packages is called as **packing**. With the help of suitable packing, a product gets an outer protective enclosure useful during the transportation of the products to the importer. **For example,** packing plastic boxes in corrugated fibre board boxes to protect them during transit would imply packing. The container or box in which a product is packed is called as package. The technique of creating or manufacturing this container or

box is called as packaging. For example, using a plastic container (package) to pack assorted collection of embroidered handkerchiefs is known as packaging.

According to William J. Stanton, "Packaging may be defined as the general group of activities in product planning which involves designing and producing the container or wrapper for a product".

Packaging attracts the attention of consumers, helps to connect with their own personality and establishes an emotional relation in very small fraction of time. Style of packaging develops with the needs and requirements of the customers. Sometimes these requirements may become the key ingredient to determine the effectiveness of packaging. The terms packing and packaging, and the difference between the two can be learned through classifying the term 'packaging' into two types namely; 'consumer' and 'logistical packaging'.

The basic purpose of undertaking **product or consumer packaging** is to safeguard the goods from reactions caused by natural elements, to draw the attention of the market and to have ease of handling. Whereas, **industrial or logistical or transit packaging** is utilised in case of physical distribution of goods. Both these categories of packaging are intended to achieve organisational objectives, where logistical packaging aims to meet distribution objectives and product packaging fulfils marketing goals. The packaging aspect of the product offered to consumers is very crucial for any marketing strategy. Several features and elements need to be evaluated while creating a package.

3.1.9.1. Role of Packaging

Packaging performs very important roles, some of which are discussed below:

1) **Utilitarian Role:** Packaging helps in enhancing the utility value of the product to its customers in the following ways:

- i) Eases brand identification.
- ii) Enhances convenience of using product by keeping the product clean and intact.
- iii) Helps in protecting the product against spoilage, damage, spilling, and evaporation while it travels from manufacturer to end user.
- iv) Facilitates easy handling and safety of stock present in the retail stores.

2) **Profit Role:** Packaging also helps in generating revenues in the following ways:

- i) As the effective packaging prevents the products from damaging. This helps in cutting down the unnecessary costs that may have been incurred in these activities; therefore, it indirectly helps in increasing profits.
- ii) Those customers who generally give more value to the packaging do not mind paying a bit extra for it. Thus, package helps in bringing in more funds.

3) **Communication Role:** Packaging serves as a medium of communication by becoming a part of communication mix, especially through sales promotion and advertising, in the following ways:

i) **Product Identification and Differentiation:**

Packaging helps in product identification and differentiation. In today's world of cut-throat competition, where it is difficult to differentiate two physical products, the distinctive packages help in differentiating one product from another. There are various brands of talcum powder, cream, hair oil, soap available in the market; and it is the unique colour and design of the container/wrapper which helps the consumers to identify and differentiate the products. Thus, packaging is an essential part of the product and nowadays people choose the products which are available with attractive and striking packaging.

ii) **Communicate Product Message:** Package conveys the message of the product and encourage people to buy it, for example, attractive package of few leading brands, such as Cadbury's fruit and nut chocolate, Real Fruit Juice, Kellogg's Chocos, Dove Soap, etc. This role is especially true in the case of edible products and medicines because necessary information is mentioned on it, such as, ingredients, directions for use, precautions, nutrition value, etc.

iii) **Implementing the Repositioning Strategy:**

Packaging also plays a major role in product repositioning strategy. The labelling and packaging of the product can be altered in order to implement its repositioning in market. This strategy is most effective for the products which are used on regular basis by the consumers, such as, baby soap, talcum powder, tooth paste, cooking oil, washing powder, hair oil, etc.

iv) **Reiterate the Sales Message:** It helps in conveying the sales message printed on the package of the product repeatedly. Whenever the product is picked by the consumer for use, the message is conveyed to the user. It motivates repetition and replacement buying. It is specifically relevant in case of household and FMCG products such as, Maggi Noodles, Parachute Coconut Oil, Ponds Talcum Powder, etc.

v) **Product Promotion:** It helps in promotion of the product when the customer is about to make a purchase and also influence the buying decision of the consumers. With the help of packaging, new products can easily be identified after which the customer can ask about the product from the dealer and make the

purchase. Some new products could easily be located by their unique packages, such as, Dove Beauty Soap, Kitkat Chocolate, Ferrero's Kinder Joy, etc.

vi) Enhances the Attractiveness of the Product: Packaging plays an essential role in enhancing the attractiveness of the product. The products which look attractive in the display at the retail store immediately attract the attention of the people due to their pleasing appearance, for example, Pond's Dream Flower Talcum Powder, Lux Beauty Soap, Hide and Seek Biscuit, etc.

vii) Buying and Marketing Roles: Packaging is an integral component of the marketing function and should be considered during the initial stage of the marketing plan. Apart from this, it is involved in the buying function and many other functions of the organisation. It also plays an important role in enhancing the sales of the brand or products.

3.1.9.2. Packing as a Marketing Tool

Packing executes a growingly significant role within the underlying system of marketing. Every marketing plan considers 'packaging' as a crucial player which acts as a 'silent salesman' in the self-service outlets launched these days. The packaging of a product attracts buyers. It supports the marketing plans in regards to fulfilling current as well as future marketing needs and creating new opportunities and markets. Hence, packaging is considered as an essential element of marketing. Packaging contributes in enhancing profits for a company in two ways. First, effective packaging helps in reduction of cost and second, it helps in increasing the sales volume. Hence, design of a pack leads to effective marketing, increasing sale of product and improving the profits.

In order to differentiate a product from that of the competitors, a marketer tries to add value to his product by showcasing its utilities (multi-tasking) to the customers. This utility is required to be displayed using visual representation which is done through attractive packaging. In the opinion of marketing firms, an individual buyer notices a product kept on a store shelf for mere 0.3 seconds. The product will obtain the entire 3 seconds required for making a purchase decision if and only if the buyer is attracted. During that small interval of time, the package should exactly catalogue its effect, indicate its value in comparison with other competing brands and present its advantages and utility factors. The time period of three seconds just gives the necessary time to scan the name of the product and evaluate its cost. Here, all other factors should be visually clear helping the buyer to make the purchase decision.

Packaging facilitates the product marketing in following ways:

1) Shape-Distinctive Outlines: Packaging gives a shape to the product. The shape of a package is controlled by the functional features of the product delivery. Packaging supports the appropriate delivery of the product to the end customer. Sometimes, products lacking any visual cues need to be delivered to the end customers through representing their multiple functions. This is only possible with the help of giving a shape to the products. Thus, an attractive and distinctive outline is provided by the shape of packaging. It facilitates the promotion and delivery of different shapeless products.

2) Colour: Colour of the package may send various ideas and essence of the product to the end user. It plays an important role in the visual representation and recognition of a product. It is very easy for the marketers to associate a particular colour to the brand in comparison to adding a text or symbol. For example, Coca-Cola can easily be recognised by its red colour and similarly, McDonalds can be recognised by yellow colour on its golden arches.

Moreover the different choices or flavours within certain product types can be distinguished with the help of colour. For example, purple represents grape, green denotes lime and yellow for oranges. Similarly, red or dark brown colour indicates regular coffee, whereas green colour represents decaffeinated. Therefore, colour of packaging is aggressively used by marketers so as to promote and sell the products.

3) Surface Finishes: Similar to colours, multi-functionality can also be communicated with the help of contrasting surface finishes. A contrast can be highlighted by using glossy surface on one compartment of the multi-compartment container and a smooth surface on the other one. Graphics or labelling can be used on single-compartment container to highlight contrast. These graphics and textures are displayed in a distinctive manner. Thus, these surface finishes of packaging enable the marketers to easily communicate the product in the market.

4) Labelling/Decorating: This fact cannot be denied that the labelling and decoration of packaging explain more about the product. A marketer efficiently uses labelling in packaging to differentiate the product and make it attractive through incorporating different images, words or

colours. It helps marketers in communicating the reasons for buying the product and the way it should be consumed. Sometimes, verbal instructions are very important for marketing some specific products like medicines, smartphones, engineering tools, etc.

3.1.10. Labeling

The section of the product which conveys the details of the product and the seller is called as 'labelling'. It specifies the information about the product like its brand name, components, brand logo, instructions to be followed while using the product, promotional messages, if any. A label can be a portion of the packaging or a small sheet may be fixed with the product itself.

According to William J. Stanton, "The label is that part of the product which carries verbal information about the product or the sellers (manufacturers or middlemen). A label may be part of the package or it may be a tag attached directly to the product."

According to Mason and Rath, "The label is an information tag, wrapper or seal attached to a product's package."

Many varieties of labels are available in the market consisting of plain tags affixed to the main product or typical graphics on the package. One of the basic roles of label is to give the product identification or its concerned brand. For example, Sunkist imprints its brand name on oranges. A lot of information related to the product is displayed on the label including details of the manufacturer, production location, date of manufacture, ingredients, safety precautions, and instructions for use, etc. It can also be used to promote the product by some attractive pictures and illustrations.

3.1.10.1. Types of Labels

There are three basic categories under which labels can be classified. These three categories are discussed below:

- 1) **Brand Label:** In this type of label only the name of the brand is given on the product's package. It specifically aims at advertising and promotion of the brand name of the manufacturer. For example, Dhara cooking oil, Tata salt, etc. No other information about the product is provided on these types of labels. Mainly the manufacturers of consumer goods prefer to use such labels.
- 2) **Grade Labels:** Many a time the manufacturers produce more than one type of product in same product category; in such cases the grade labels are used. Grade labels describe the type of the product (quality of product, grade of product, etc.). This helps the consumers and the intermediaries to

identify the product easily. For example, Green Tea, Tea Bags, Leaf Tea, etc. However, the label does not contain any other information about the product or the producer beside the product type.

- 3) **Descriptive and Illustrative Label:** Such labels are descriptive and illustrative. They give detailed information to the consumers about the product and its producer. It also contains information, such as date of manufacturing, date of expiry, quantity and quality of the product, ingredients, and directions for use, etc. It is mainly used for the products, such as medicines and cosmetics.

3.1.10.2. Role of Labeling in Packing

Roles of labelling are discussed below:

- 1) **Identifies Product:** The main role of labelling is to allow the customers to know the product and the concerned brand and thus publicise or familiarise the brand name and the product. The features and other details of the product are given by labelling. It informs the positive attributes of the product, helping it to become a fast moving item in the market.
- 2) **Grades Product:** The standard of the product is reflected on its label. Division of the product in various grades as per its quality can be done with labelling. For example, classification of wheat can be done in grades; 1, 2, 3 or 4 and respected grades are described on the label.
- 3) **Promotes Product:** Labelling is also involved in promoting the particular product or brand. Interesting, bright pictures and forms of graphics are used in labelling to grab the attention of customers and encourage them to finally purchase the product. With effective labelling, the customers are inclined towards the buying decision, thus making it a crucial factor for increasing the sales and distribution of the product.
- 4) **Protects Customers:** The label provides details like maximum retail price, quality, quantity of the packaged product, contents, etc., and thus safeguards the consumers from any kind of malpractices or unethical behaviour of the dealers or intermediaries. Consumers can differentiate between real and fake brands with the help of labelling.
- 5) **Provides Information Required by Law:** To provide necessary information related to the product as required by the law, is also an important role of the labelling. Thus, labelling provides the disclaimer or statutory warning about the product. For example, "smoking is injurious to health" and "chewing tobacco is injurious to health" are the two popular statutory warnings provided on the labels of cigarettes and pan masala, respectively. Similarly, relevant statutory warnings need to be given on the labels of other poisonous or harmful products as well.

- 6) **Facilitates Buying Process:** A specific label segregates the product from other products offered by competitors. It is very important to avoid such confusion in case of medicines and chemicals where a small mistake in the spelling of the brand name can be fatal to the customer.
- 7) **Encourages Self-Service:** It is an effective instrument to increase sales as it stimulates self-service in large departmental stores and supermarkets. If the label provides the necessary information like the ingredients, price, quantity, quality, taxes, uses, instructions for use, safety warnings, etc., the consumers can decide and purchase the best product on their own. Thus, labelling assists the self-selling firms in their operations by way of promoting self-service.

3.2. PRODUCT MANAGEMENT

3.2.1. Introduction

All the activities related to product planning and management are involved under the product management. The foundational corporate and marketing plans are included in product planning as these plans derive the product plan. Therefore, the part of marketing management related to the planning and development of a product, including building and management of a brand is defined as the product management. With the aim of maximising sales revenues, market share, and profit margins, product management (which is inbound focused) and product marketing (which is outbound focused) are two distinct but complimentary initiatives. Depending on the organisational structure of the company, the position of product management encompasses a wide range of tasks, from strategic to tactical. Driving the development of new products is the primary goal of product management.

Product management can be characterised as the entrepreneurial management of a piece of business (product, product line, service, brand, segment, etc.) as a 'virtual' company, with a goal of long-term customer satisfaction and competitive advantage. Project management, new product development, and sales support are all possible components of product management but are not the same thing.

Planning, forecasting demand, and promoting products or services are all part of the product manager's overall responsibilities. The planning or marketing of a product or goods at any step of the product lifecycle is the responsibility of product management, an organisational function inside a firm. Product management is a word used to refer to a variety of operations carried out with the goal of bringing a certain product to market.

3.2.2. Primary Objectives of Product Management

Following are the primary objectives of product management:

- 1) **Plan:** Planning and creating product specifications that adhere to the long-term strategic plan is a primary goal of product management. The strategic plan may call for the creation of new items to satisfy the demands of brand-new market sectors or the enhancement and expansion of the current product line to gain market share in the current sectors.
- 2) **Customers:** Product managers need to make sure their products meet or surpass consumer expectations. Pragmatic marketing emphasis that the key goal of product management is to improve the user experience. To do this, it is necessary to collaborate with customers and take advantage of their comments to make sure that the products are user-friendly, straightforward to maintain, and able to provide value to customers. The crucial goal of maximising customer 'happiness' is achieved by product managers with the aid of improving the user experience.
- 3) **Success:** Commercial success is the ultimate measure of product management, as per Innovation Process Management. Product managers must understand the significance of financial results even though they may not have particular profit and loss responsibility. They must coordinate the efforts of other corporate specialists, such as product development teams, marketing executives, quality managers, and sales representatives, who affect how well the product performs in the market, in order to achieve commercial success.
- 4) **Delivery:** Product managers must adhere to timeline and financial constraints. They must be able to finish product development projects on schedule and within budget in order to meet market needs and deal with competitive challenges. In order to keep ahead of the competition, the corporation can shorten the time it takes to introduce new or better items to the market.
- 5) **Marketing:** When it comes to maximising revenue and profit while satisfying consumer expectations, product management and marketing management have a lot in common. A product manager and marketing manager may both work similarly in many companies. In other cases, product managers closely collaborate with marketing managers to plan and prioritise product development programmes using market research, and to inform marketing teams of the advantages of new products so they can create effective customer communications.

3.3. , BRANDING

3.3.1. Concept of Branding

In management context, branding is a symbolic representation of information associated with a product or service. A brand particularly consists of a name, logo, other visible features including colour combinations, fonts, images, symbols, etc. A brand raises a number of expectations in the minds of the individuals in relation with particular goods or service. These individuals may be employees working with the brand, suppliers, vendors and their associates, distributors and lastly consumers.

According to American Marketing Association, "Brand is a name, term, sign, symbol, or design, or a combination of them which is intended to identify the goods or services of one seller or a group of sellers and to differentiate them from those of competitors".

The term 'branding' is a very broad concept. It comprises of the entire effort in creating a unique space in the mind of the consumers for the product of the company, through consistent advertising and promotion campaigns. It can also be considered as the art of creating a brand. The very first motive of branding is to attract and retain potential customers through developing and maintaining a unique position in the market. In this, the means of identification of the company is recognised and established. Branding includes giving a name to the product, as parents name a baby.

The branding process consists of an advertising campaign based on a consistent concept which forms a distinct identity and image of the product (goods or services) in the minds of the customers. Organisations develop and maintain unique identification in the market through branding.

It helps in fascinating and retaining loyal customers. The act of naming a family member is quite similar to branding. Here producers have children in the form of products or services similar to parents having their own children. As the biological parents are anxious to understand the personality traits of their children, similarly, producers are anxious to find out the nature and scope of their products not on the names but based on the launch of the product. Therefore, a managerial process of deciding a particular name for a given product is called as 'branding'.

Branding guides the consumers in several ways including picking out the most useful products, and quality assurance associated with the product, etc. A loyal purchaser is assured of the same attributes, quality and satisfaction from a brand during every shopping experience. A seller also has many advantages in getting associated with a brand. The exceptional quality

of a product speaks everything about a brand name. The exclusive characteristics of a product are lawfully safeguarded against duplication by competitors due to its unique brand name and trademark. Division or subdivision of a market is also possible due to branding.

According to Jared Spool, "Branding means creating an emotional association (such as the feeling of success, happiness, or relief) that customers form with the product, service or company".

According to Costantino, "Branding is to help achieve and maintain a loyal customer base in a cost effective way in order to achieve the highest possible returns on investment".

Brand creation is more than just giving a name to a product. A brand is essentially a promise that the company makes to customers. It is a promise towards satisfaction of their needs and assuring world-class product and service quality. Three questions "who", "what" and "why", are very crucial for the successful branding of any product. Marketers should introduce who the product is, what does it do, and why should consumers know about it.

3.3.2. Functions of Branding

Functions of branding are as follows:

1) Related to Consumers

i) **Identification of Product Source:** Brands naturally project the identity of the producer and marketers because they reflect the initiator or creator of the product.

ii) **Assignment of Responsibility to Product-maker:** The consumers are authorised by the brands to allocate the authority to a specific distributor or producer. Above all, brands have a significant impression to win over the consumers.

iii) **Risk Reducer:** A buyer may realise several kinds of risks during procuring and utilising products including physical, financial, functional, social, psychological, risk of time wastage, etc. Brands can help to minimise these risks encountered during product decisions. They can be used as an effective risk management instrument by the companies conducting business, in case these risks have acute consequences in the long-run.

iv) **Search Cost Reducer:** The amount of money spent by the consumers on exploring various products is reduced considerably with the help of branding. Brands assist in minimising these costs at the internal level, i.e., in relation to the expectations of the consumers and at the external level, i.e., in terms of exploring the other available options in the market.

v) **Promise, Bond or Deal with Maker of Product:** A brand and a consumer share a relation which can be termed as a kind of 'bond' or 'commitment'. Consumers being faithful and dedicated towards a brand have an implied perception about the behaviour of the brand. They expect a certain level of performance, appropriate price of the product and suitable promotion and distribution activities to create significant utilities. Consumers will continue to purchase a particular brand as long as they are satisfied and realise the services and benefits provided by that particular brand.

vi) **Symbolic Device:** Brand can act as an illustrative mechanism which enables the consumers to present their own personality. Few specific brands indicate different characteristics or values due to their association with particular class or category of people. Consumers by using these brands can convey to the society as a whole or to themselves about the kind of personality they possess or would wish to possess in future.

vii) **Signal of Quality:** Brands can act as major contributors towards conveying particular product attribute to consumers. Products and their traits or advantages have been categorised into three main categories by researchers which are given below:

a) **Search Goods:** Here visual examination of the product can be done to analyse the characteristics of the product comprising of size, colour, style, composition, durability, weight of the product, etc.

b) **Experience Goods:** In case of experience goods, product traits, probably, equally significant, cannot be simply evaluated by physical examination but actual verification and experience is required. This may include safety measures, quality of service, sturdiness, effortless handling or use of the product.

c) **Credence Goods:** Under this, product traits are seldom acknowledged or comprehended, e.g., insurance coverage. Consumers can face lot of problems while evaluating and understanding the characteristics and benefits of a product in case of credence goods. Here, brands can act as key indicator of features and quality of such kind of products.

2) Related to Manufacturers

i) **Means of Identification to Simplify Handling or Tracing:** Basically brands carry

out the function of recognising which simplifies the task of handling and tracking down products in an organisation. It facilitates inventory management and helps in maintaining accounting records.

- ii) **Means of Legally Protecting Unique Features:** A company receives security in a legitimised way because of brands. The exclusive outlook and characteristics of products are safeguarded by brands. A brand helps a company to keep possession of its intellectual property rights and also offers legal status to a brand owner.
- iii) **Signal of Quality Level to Satisfied Customers:** Regular and satisfied customers are prompted to buy the product one more time because of the brands which communicate about the level of quality maintained by the product. This commitment provides the probability and certainty of demand to the company. New entrants or other competitors find it tough to penetrate the market due to the obstructions created by loyalty of customers.
- iv) **Means of Endowing Products with Unique Associations:** A product is graced with exclusive features or associations or reputation due to branding. Thus, it helps in making the product unique.
- v) **Source of Competitive Advantage:** Branding acts as a source of competitive advantage. Generally, product designs or production/manufacturing techniques may be copied by the competitors. But, it is not easy to create the same product experience or product positioning in the minds of consumers, which was developed through the branding efforts.
- vi) **Source of Financial Returns:** The concept of branding may be fruitful in terms of being a potential source of financial returns. Due to this feature, branding largely gets the attention of top management.

For example, a major portion of corporate value of a given FMCG company is represented by its intangible assets and goodwill. Rarely, the 10 per cent of the value is represented by tangible assets. Here, branding is responsible for creating around 70 per cent of the intangible assets.

3.3.3. Branding Strategies

Brand-product relationships can be governed by using six models which are based on organisational strategies. These models explain the status and function of the brand along with describing its relationships with different products.

The key branding strategies based on the features of the brand are listed below:

- 1) **Product Branding:** It is a well-known fact that a brand can simultaneously be an object, a word, a symbol, or a concept. Brand is an **object** as it helps to differentiate each product from other goods and services in the market. Brand is a **word** as it has a brand name which gives details of the product in case of oral and written communication. Brand is a **symbol** as it has variety of features and it is expressed through many figurative expressions like logos, colours, forms, emblems, designs and packaging. Lastly, brand is a **concept** as it dictates its own meaning and worth similar to any other symbol.

The product branding strategy is responsible to attribute a specific name and positioning to every single product or product line. Thus, every new product gets its very own brand name exclusively owned by it. As a result, a brand portfolio is developed within the organisation representing the product portfolio.

- 2) **Line Branding:** Line branding should not be confused with the concept of product lines. Here, different products manufactured/developed on the basis of one common theme are grouped together to form a single brand. Initially, a single product is launched to represent the brand concept, and gradually different complementary products are introduced in the same brand concept. The basic theme behind such branding is not altered. For example, Lakme is involved in practicing line branding strategy. The basic brand theme of Lakme is the "source of radiant beauty." Variety of products, complementary in nature, is offered by Lakme under this brand concept like body lotion, winter care lotion, eye make-up, foundation, etc. Through line branding strategy, the basic need of the consumers is satisfied along with fulfilling complementary needs. Lakme, for example, focuses on satisfying consumers' need to become attractive and beautiful. Different complementary products are offered by Lakme to fulfil this core need.
- 3) **Range Branding:** Range branding strategy looks similar to line branding strategy, but there is a significant difference between the two. Like line branding, different products are associated with the basic brand concept, but these products are not complementary to each other. Different categories of products are available under the same brand concept. Here, the basic theme of branding is the area of expertise. For example, Himalaya Drug Company offers variety of ayurvedic medicines including skincare, body care, health care, etc. Certainly, syrup, shampoo and facewash, do not complement each other. Here, the basic concept of branding is area of expertise. The area of expertise

here is 'ayurvedic medicines'. Therefore, under one brand, different non-complementary products are offered to the consumers. One of the advantages of range branding strategy is the low spending for promotion, as single brand covers all products in the group. Sometimes, range branding becomes a problem due to presence of too many products under the same brand. It can also lead to confusion among the consumers and affect the brand image.

- 4) **Endorsement Branding:** Here, the company brand name is not so popular because of the popularity of the product brand. The company brand name is highlighted in smaller letters and is utilised only to give recognition to the owner. The product brand exists on its own. **For example,** Cadbury Dairy Milk shows the owner of the product brand.

In marketing communication programs, these brands show their relation with the parent company. Here, product brands enjoy their popularity along with highlighting its owners. Company brand is also useful in attributing certain specifications in the product brand.

- 5) **Umbrella Branding:** Just as an umbrella covers the individual(s) holding it, umbrella branding strategy covers the entire product mix of a particular company, utilising a single brand name. Here, brand logo or name is same for all the products offered by the company. **For example,** all the products offered by the company Phillips, are offered with the brand name of Phillips. Any new additions to the product mix or product line are also named as per the parent brand. It plays a crucial role in trial purchases, acceptance and survival of such new products. The main advantage of such branding strategy is that single promotional program is sufficient for promoting the diverse products. This kind of branding may also be called as 'family branding'. It is very crucial for different products under the family brand, to maintain a certain quality level. Weakness in one product may create the negative image of the whole brand.

- 6) **Source Brand Strategy:** This strategy is quite similar to the above mentioned umbrella brand strategy. But unlike the umbrella brand, each product under the parent brand has its very own brand name which makes it a major distinguishing factor between these two strategies. **For example,** TATA company follows source branding strategy for its products. The different products are TATA Nano, TATA Indica, TATA Indigo, TATA Docomo, TATA Sky, TATA Indicom, etc.

Association of additional brand name into the source brand is very helpful in improving the relevance of the source brand. It helps in drawing attention of particular customer segment. To cater

different needs of the customers different brand names are designed for different products. The source brand helps in establishing the new products in the market.

3.3.4. Importance of Branding

Branding has the following importance for different categories:

1) To Consumers

- i) **Easy to Recognise:** The existence of the brand name allows the consumers to identify the brand in the market clutter. This is because the brand has a distinctive packaging, colour, design, etc.
- ii) **Availability of Quality Products:** A brand is an assurance of quality. Even the producers have to make constant efforts to invest in R&D etc., so that they offer quality product and fulfil the brand promise. Consumers therefore get an assurance of quality when they buy a brand.
- iii) **Minimum Fluctuations in Price:** It has been seen that price fluctuations do not occur in brands. Consumers therefore get assured prices.
- iv) **Improved Packing:** The packaging of the brands is given lot of importance. The name of the brand and other details are included in the brand packaging. The packaging itself has to undergo a constant innovation in terms of look and feel so that the quality perception of the brand is maintained.
- v) **Mental Satisfaction:** The use of brands by consumers also gives lot of satisfaction to the consumers as it gives them a feeling that they are using a superior product. For many consumers it can often be the feeling of pride like owners of Mercedes and Harley Davidson.

2) To Producers

- i) **Easy to Advertise:** Having a proper brand helps the organisation to develop advertising strategies as the brands vision, target markets, and value propositions are clearly defined. The name of the brand can be used by the organisation in its advertising campaigns.
- ii) **Easy to Identify the Products:** The brand name helps consumers to identify the products. This helps in advertising the products easily.
- iii) **Creation of Separate Market:** The brand helps the company to develop a value proposition for a particular market. This also helps it to develop a separate market for its products.
- iv) **To Get More Price:** Branding attracts and retains customers. They become loyal to the brand and are ready to pay any price for the brand.

v) **Easy to Expand the Product Mix:** The existence of a successful brand helps the company in expanding the product mix. The company can add new products to the product mix and also add to its product lines. Getting the customers to buy new products is not a problem as the new products can rely on the positive image of the existing brands.

vi) **Personal Contacts with Consumers:** The brand also helps the company to establish a direct link with its customers and to eliminate the activities of all middlemen who have vested interests. This reduces the cost of distribution immensely.

3.3.5. Selecting Logo

Logos are symbols that represent something. It is usually a company, product or brand. Logos help the company to register a particular image in a person's mind about the company. For this, the logo has to be attractive, unique, and functional. It should also represent the company's image well.

Trademark logos are those logos that distinctly represent a company's intellectual property. Logos are generally trademarked, in the sense that they cannot be used by anyone else. Sometimes, the logo acts as a trademark for the brand or the company itself. The trademark is generally represented by a .TM symbol, which confers certain rights to it. However, trademarks are not registered with the government trademarks office. When they are registered, they become a registered (R) mark. A trademark logo confers certain rights on the owner: exclusive use of the mark and ability to lease out or franchise the mark to some other party. Trademark logos are regulated by the jurisdictions of the particular state or country.

There are many kinds of trademark logos: combination (icon and text); logotype/wordmark/lettermark (text or abbreviated text) and icon (symbol/ brandmark). A trademark logo can contain just symbols, or both words and symbols. It may or may not contain the company's name, but having the company's name is an advantage. Some logos have just a part of the company's name or just one letter, e.g., Y! (Yahoo!) or FedEx (Federal Express). Some major logos and symbols of iconic brands are shown below:



Mercedes-Benz



Hindustan Unilever Limited

3.3.5.1. Elements of a Good Logo

- 1) **Lasting Value:** A good logo has a lasting value. Trendy logos don't hold up over time.
- 2) **Distinct:** A good logo is distinct. Some amount of uniqueness, as long as it doesn't confuse, is valuable.
- 3) **Appeal:** A good logo appeals to the target market.
- 4) **Supports USP:** If the company is trying to communicate low prices then its logo should support that image.
- 5) **Legible:** This seems pretty obvious but many people use typefaces and images that can't be printed or carried to a large sign. Logo should clearly identify the company and it can't do that if people don't understand it.

3.3.5.2. Benefits of Logos and Symbols

- 1) Logos and symbols are often easily recognised and can be a valuable way to identify products, although consumers may recognise them but be unable to link them to any specific product or brand.
- 2) Due to the non-verbal and abstract nature of logos, they transcend across geographies and cultures.
- 3) Logos serve as an umbrella as a wide range of products.
- 4) They increase brand awareness and recall by leaps and bounds.
- 5) Logos and symbols, two important elements of a brand, play a vital role in creating brand equity.
- 6) Logos or symbols, etc., are easily recognisable. These elements give a product or service its own personality and establish an association in the mind of the user.

3.3.6. Brand Extensions

The section of brand management that helps in diversifying and controlling the parent brand by penetrating fresh product category through developing a new brand is called Brand Extension. The new product is promoted using the strengths and positive images of the parent/existing brand. This is among the most used product development strategy employed by companies and is seen as a way to achieve an integrated brand architecture.

When the name of the parent brand is used on a fresh product of an extension brand, it increases the acceptance rate for the new product and the customer's intention to purchase it. This strategy makes the promotion and advertising expenditure more efficient and can also help in creating market segments. As the product is new, the expenses allocated for marketing are not at par with those made by the existing brand, but might still be equally successful. Since the parent brand has a strong reputation, the risks that the new product

- 3) **Some Brand Extensions have a Neutral Effect:** Here the brand simply falls in line with what is expected of the brand. For example, Electrical appliances (Akal)
- 4) **Some Brand Extensions help Develop and Nurture the Meaning of the Brand:** These extensions revitalise the brand and its nucleus, causing a resurgence of its basic values in a new and powerful way. For example, Voltas air conditioners, which revitalised the Voltas brand.

3.3.7. Brand Equity

Period of 1980s witnessed the extensive use of brand equity concept by the advertising professionals. Different valuable academic contributions concerning the brand equity were offered by scholars like **Srivastava and Shocker, Kapferer, Keller and Aaker** throughout the 1990s. There was, however, no universal definition and explanation of the concept of brand equity. Today, a common description of the brand equity is possible and it says that brand equity is the value assigned to a particular brand by customers as per their perception about it.

The idea behind the concept of brand equity is the value attached to the brand, which is more than value attached to its tangible attributes. Therefore, brand equity comes under the category of intangible assets of an organisation. Additional revenues or cashflows brought by a particular brand to the firm describe the brand equity of that brand. Products with higher brand equity are generally priced higher.

According to Biel, "Brand equity can be thought of as the additional cash flow achieved by associating a brand with the underlying product or service".

According to Aaker, "Brand equity is a set of brand assets and liabilities linked to a brand, its name and symbol add to or subtract from the value provided by a product or service to a firm and/or to that firm's customers".

According to Keller, "Brand equity is defined in terms of marketing effects uniquely attributable to the brands. For example, certain outcomes result from the marketing of a product or service because of its brand name, which would not have been occurred if the same product or service did not have the brand name".

Value stored within a brand which offers competitive advantage to it, is called brand equity. Equity denotes the worth of brand. It is a universally accepted notion that brands offer value. But, in adverse conditions, they might diminish the value. Variety of literature is available on the topic of brand equity, which assists in exploring and explaining the concept of brand equity. It is the benefits of the brand equity which attract the managers and academicians towards it.

3.3.7.1. Sources of Brand Equity

Brand equity has following sources:

- 1) **Market Research:** Market research is one of the important sources of brand equity. Prior to launching a new product in the market, a quantitative as well as qualitative investigation is important so as to get acquainted with the ongoing market trends and other aspects. It helps in determining the desired products and services of the target market. Therefore, ultimately it leads to development of appropriate products, which facilitate brand equity of the firm.
- 2) **Quality:** Quality of the brand is also a source of brand equity. The quality of the new product should be excellent in order to establish an everlasting impact on the minds of its customers. Quality leads to satisfaction among the consumers and they promote the brand to other users also. Thus, ultimately it improves the brand equity of the product.
- 3) **Marketing Mix:** Another source of brand equity is marketing mix strategies implied for the brand or product. The appropriate utilisation of the marketing mix promotes efficient marketing of the brand. As marketing of the brand is effective, it leads to improved brand equity.
- 4) **Brand Extension:** Brand equity can also be achieved by undergoing brand expansion. It refers to addition of new products under the same brand name. As different new and improved products with unique features are introduced by the parent brand, it leads to improved brand equity. For example, LG smartphones, Lux shampoos, Dettol shaving cream, etc.
- 5) **Customer Opinion:** Views of customers are also one of the major sources of brand equity. Most of the companies welcome the valuable suggestions and responses from their customers because this helps them to evaluate the shortcomings as well as strong points associated with their product/brand.
- 6) **Customer Satisfaction:** Satisfied customers are also the sources of brand equity as they explore the value of the brand in the target market. More the products and services offered as per the requirements of the customers, more they become satisfied. Thus, it is clear that satisfied customers lead to improved brand equity.

3.3.7.2. Keller's Model of Brand Equity

Customer perspective was used by **Keller** to describe the concept of brand equity. **Customer-Based Brand Equity Model** or **CBBE Model** answers two questions, i.e., 'What makes a brand strong?' and 'How to build a strong brand?' Generally, customers through their brand experiences develop certain feeling, belief or attitude

about the given brand, it is called power of the brand. Therefore, the perception of customers about a particular brand describes the power of the brand.

"Customer-based brand equity is defined as the differential effect that brand knowledge has on consumer response to the marketing of that brand."

Three major components of this definition are as follows:

- 1) **Differential Effect:** Brand equity ascends from varying responses from the customers. Non-occurrence of variations in customer responses clearly means that the brand name is actually a commodity or a generic product. Here, the prices are used as competition basis. For example, customers interested in buying air tickets are not so influenced by the brand of the airlines, instead they use pricing as a basis of purchasing air tickets.
- 2) **Brand Knowledge:** Brand knowledge is the main reason behind differences in customer responses. All the feelings, emotions, beliefs, attitudes, thoughts, etc., which customers associate with the brand are collectively called brand knowledge. Generally, brands focus to develop unique, favourable and strong customer associations. For example, Le Meridian (luxury), Café Coffee Day (relaxed enjoyment), Pizza Hut (fast, worth and hygienic), etc.
- 3) **Consumer Responses to Marketing:** The varying responses from the customers that establish brand equity are revealed through opinions, inclinations and actions associated with the various facets of brand marketing. Powerful brands which have good market image bring in more earnings.

When, in comparison to brand being unidentified, customers respond more positively towards an identified brand and its marketing, it is called **positive customer-based brand equity**. Here, taking out advertising support or any price increase has minor impact on the customers. Moreover, new distribution channels as well as brand extensions are welcomed by customers.

On the contrary, **negative customer-based brand equity** of the brand means customers' response is less favourable towards the marketing actions of the brand in comparison to an unknown or fake product.

In presence of high brand awareness and familiarity as well as the favourable and strong brand perceptions among the customers, the concept of customer-based brand equity originates. Adding unique and differential features to the brand so as to highlight the reason of buying the brand and develop its competitive advantage, results in differential responses from the customers that ultimately develop customer-based brand equity.

Brand Knowledge

From the perspective of the CBBE model, brand knowledge is the key to creating brand equity, because it creates the differential effect that drives brand equity. What marketers need, then, is an insightful way to represent how brand knowledge exists in consumer memory. Brand knowledge can be characterised in terms of two components – brand awareness and brand image.

3.4. PRICING DECISIONS

3.4.1. Introduction to Pricing

The only component of marketing mix that generates returns is called **price**, however, others only generate costs. Price can be easily altered, whereas, other product aspects like channel obligations and product attributes cannot be changed so easily. Therefore, price is the most flexible component of the marketing mix. For a manufacturer, price is that amount of money (or in case of barter trade, goods or services) which he will receive from the buyer for his product. For a customer, price is something he sacrifices for owning the product or service and therefore, it displays his perception for the product value. It can conceptually be defined as:

$$\text{Price} = \frac{\text{Quantity of money received by the seller}}{\text{Quantity of goods and services rendered/ received by the buyer}}$$

As per this equation, the numerator as well as the denominator is crucial while taking price decisions. A product's price is based on the seller's decision regarding its monetary worth to the buyer. The method used to convert the worth of a product or a unit of service into quantitative form (i.e., rupees and paise) at a given time for customers is called 'pricing'.

According to Prof. K.C. Kite, "Pricing is a managerial task that involves establishing pricing objectives, identifying the factors governing the price, ascertaining their relevance and significance, determining the product value in monetary terms and formulation of price policies and the strategies, implementing them and controlling them for the best results".

Pricing can, therefore, be defined as the task of deciding the monetary value of an idea, a product or a service by the marketing manager before he sells it to his target customers. In particular, pricing is the process of formulating objectives, deciding the flexibility that is available, devising strategies, setting prices, and implementing and controlling the above elements. Pricing is one of the strongest marketing instruments that the company possesses. Pricing decision is an important aspect of a marketing plan. Thus, marketers need to take exact and premeditated pricing decisions.

3.4.2. Objective of Pricing

There always exists a motive behind pricing a product or service, may it be revenue, survival, or any other competitive advantage. Following are some of the pricing objectives:

- 1) **Profit Maximisation:** The basic aim of a pricing decision is to increase the profits of the firm. The pricing policy thus must be made in a way that it can help the firm achieve to maximum profits.
- 2) **Price Stability:** It must be ensured that prices remain as stable as possible. When a pricing policy is stable, it gains customer confidence and enhances the reputation of the company. This can be done by taking into account long-term and short-term elements.
- 3) **Facing Competition:** Another objective of price decision is to handle the market competition effectively. The competitive situation must be kept in mind while finalising the prices of products and services. At times, management prices its product very low as compared to its competitors in order to discourage all the possibilities of competition.
- 4) **Achieving a Target-return:** The reputed and well set-up firms aim to set a specific rate of return on investment (either for the product quality or for the company's 'brand' name). They calculate the product's price in such a manner so as to achieve the desired rate of return on investment. Different products may have different target returns, but they must all be associated with one final targeted rate of return.
- 5) **Capturing the Market:** Capturing the market is also an important objective of pricing. When a big organisation introduces its product in the market, it fixes the price of its product lower than its competitors. This is done keeping in mind the competitive structure of the market and with the aim to capture a big market share.
- 6) **Firm's Wellbeing in the Long-run:** The prime objective of certain organisations is to set the price of their product in a manner that best suits the organisation in the long-run. While doing this, the economic situation and market conditions must be kept in mind.
- 7) **Profit Margin of Middlemen:** The product must be priced with the aim of providing the middlemen a reasonable return on the sale of a product. If this does not happen, they will not take relevant interest in facilitating the product's sales.
- 8) **Mobilisation of Resources:** Another objective relating to pricing is the mobilisation of appropriate resources for the growth and development of the organisation. Therefore, organisations aim to price its products in such a manner that it can acquire enough resources.

- 9) **Survival:** Survival strategy is preferred by firms dealing with its over capacity, extreme and fresh competition or varying consumer behaviour. It is also an important objective of pricing in certain organisations. It helps companies sail through rough waters and is hence a short-term objective. The company prefers this strategy until the price is more than variable costs and some of the fixed costs are retrieved. However, the company must strive to add value in the long-term.

- 10) **Product-Quality Leadership:** To achieve product-quality leadership is also one of the important pricing objectives. Firms producing products that are better in quality than the competitor frequently try to become the product-quality leaders in the market. They price their products higher, but try to convince the customers that due to the enhanced quality, reliability, product experience and other such benefits, the prices are worth the product values.

They convince the price sensitive customers by assuring them that they will be benefitted in the long-run. The point of importance here is that rather than allowing cost to decide the price, it is better to use price as a strategic tool.

If an organisation has a product that is better than the competitor's, it should make it known in the market and charge higher price for it. Then, it will be able to earn more profits.

3.4.3. Significance of Pricing

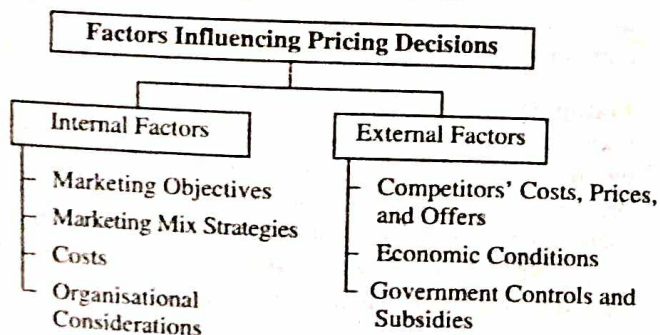
Following points highlight the significance of pricing:

- 1) **More Flexible Marketing Mix Variable:** Out of all the marketing decisions, pricing is the most elastic one for the marketers. This flexibility is especially important when the firm intends to promptly increase the demand of his product or act in response to a price action taken by the competitor.
- 2) **Fixing the Right Price:** If pricing decisions are taken in hurry and the required research, strategic evaluation and analysis are not undertaken, the organisation is prone to lose revenue. A lot of market knowledge is needed to set the exact price level. Specifically, when the product is new, various pricing options need to be tested.
- 3) **Trigger of First Impressions:** The customer may finally decide upon purchasing the product on the basis of the market offering as a whole (i.e., entire product). The customer might not judge a product only by its price. In such a case, pricing might become the most crucial element while making decisions as the marketer can establish that the customers are not showing interest in the product due to its price.

- 4) **Important Aspect of Sales Promotion:** At times, as a feature of sales promotion, marketers opt for price adjustments. They decrease the price of their product for a small duration to enhance the customer's interest in the product. Price adjustments must not be done very frequently as this may result in customers getting used to anticipating a reduction in price and withholding purchase until the prices are reduced again.
- 5) **Supply and Demand:** Demand and supply are inversely proportional to each other. When one rises, the other falls. Items like gas, food, etc., that are always in demand experience this more. If the business regularly reviews the demand and supply of the products and services, it can adjust its prices consequently.
- 6) **Position:** In simple words, the way the target market perceives a firm's offerings, as compared to firms selling similar product or service, define its position. There are firms, whose products or services are perceived to be of a high quality, and can hence charge more for their offerings.
- 7) **Sales Volumes:** The most prominent impact of pricing on business is an increase or decrease in the volume of sales. Price elasticity and how consumers react to a change in price are studied by economists.
- 8) **Loss Leaders:** In order to attract customers, certain firms use cost pricing or below cost pricing strategy. In this way, they drive customers to spend somewhere else the saved money.

3.4.4. Factors Influencing Pricing

There are numerous factors that affect pricing decisions. The pricing policies must fall in line with pricing objectives. The factors affecting pricing decisions can be categorised as follows:



3.4.4.1. Internal Factors

Following are the internal factors influencing pricing decisions:

- 1) **Marketing Objectives:** Firms devise both specific as well as general objectives. Survival, market share leadership, current profit maximisation and product quality leadership are some of the general objectives

of the firm. The firm may price its products lower than its competitor to prevent their entry in the market or at times, set its price equal to its competitor so that market is stabilised. This is an example of specific objective. Products can be priced in order to sustain the reseller's support and loyalty or to circumvent government intervention. Marketers can decrease the prices to increase the customer interest towards the product or attract traffic into the retail outlet. A single product, if priced appropriately, can help to increase the sales of other products in the product line of the company. Hence, pricing decisions are greatly influenced by marketing objectives at various levels.

- 2) **Marketing Mix Strategies:** Marketing mix strategies of an organisation are very significant in influencing the organisational pricing. One marketing mix tool that the firm uses to accomplish its objectives is 'price'. While taking price decisions, the product design, promotion decisions and distribution plans must be aligned together to create a reliable and valuable marketing program. Pricing decisions are strongly influenced by decisions that are made for other marketing mix variables.

Usually, organisations position their products on the basis of price and after that modify other marketing mix decisions, according to the price they intend to charge. In such a scenario, price is an important product-positioning factor that classifies the market, design and competition of the product. This kind of price-positioning strategy is supported by many firms. They use the target costing technique, which is a powerful strategic tool.

For example, target costing was exercised by P&G while developing and pricing its very thriving electric toothbrush named 'Crest Spin Brush'. Hence, the entire marketing mix must be taken into consideration by marketers while setting the prices. If price is not used as a factor while positioning a product, decisions regarding quality, distribution and promotion have a strong impact on price.

In case, positioning is done on the basis of price, then the decisions made regarding all the other marketing mix elements will be impacted by price. Although marketers may use price as an element for positioning, still they must keep in mind that customers seldom base their purchase solely on price. They look for products that provide them benefits worth the price they are paying for.

- 3) **Costs:** This is the base of the price that is charged by the firm. Firms intend to charge a price that can retrieve its production, distribution and sales cost and also provide a reasonable rate of return against risks and efforts. Costs incurred by a company play an important role while strategising pricing.

Various companies like Wal-Mart, Southwest Airlines and Union Carbide strive to be the industry's "low cost manufacturers". When costs are low, it becomes easier for the firms to set a lower price, which ends up in increased profits and sales.

- 4) **Organisational Considerations:** Decisions regarding who would set prices of products and services in the organisation is very important. Pricing is managed in different ways. In firms that are small in size, top management, in place of sales or marketing department, sets the prices of the products. Whereas, in bigger firms, product line managers or divisional managers handle pricing. Sales people working in industrial markets, have the authority to bargain with the customers within a specified price range.

All the same, the pricing policies and objectives are finalised by the top management who usually approves the prices that are suggested by the lower management or sales force. Certain industries like steel, aerospace, oil companies, railroads, etc., have pricing as the main element. They have a separate pricing department (which directly reports to the top management or the marketing department), which finalises prices for their products or assists other departments in deciding the same. Sales managers, finance managers, production managers, accountants, etc., are the other people who can influence pricing decisions.

3.4.4.2. External Factors

Following are the external factors that influence pricing decisions:

- 1) **Competitor's Costs, Prices and Offers:** An organisation's pricing policy is strongly influenced by the costs and prices as well as discounts and offers of the current competitors. If someone is planning to purchase a Sony digital camera, he will compare the prices and value that Sony is offering with the value and prices of similar products offered by other brands like Nikon, Kodak, etc. The pricing strategy that the company implements also impacts the type of competition it encounters. For example, in the case of Sony, if it pursues a high-price, high-margin strategy, competition may increase. Whereas, a low-price and a low-margin strategy might reduce competition or drive the competitors out of the market. Thus, Sony must benchmark its cost and value against that of the competitor. This benchmark can then be used while setting its own pricing.
- 2) **Economic Conditions:** A company's pricing strategies are also influenced by prevailing economic conditions. Economic conditions like recession, boom, inflation, interest rates, etc., have

an effect on pricing decisions, since both the cost incurred in production and what the consumer perceives about the value and price of the product, are influenced by them. The company should also analyse the impact of its price on different members present in its environment and the manner in which resellers respond to different prices. Prices must be set in such a way that resellers earn sufficient profits, get necessary support and can sell the product easily.

- 3) **Government Controls and Subsidies:** With the intervention of the government, the freedom of the companies to adjust prices and maintain margins is restricted.

As a form of control, the government can also ask the importers to deposit cash required in advance. As per this requirement, the company needs to lash out funds as non-interest bearing deposits for the amount of time it intends to import its products.

These requirements motivate the company to reduce the prices of the imported products as lower prices account for smaller deposits. The subsidies that the government provides also compel companies to strategically use sourcing in order to become price competitive.

3.4.5. Pricing Procedure: Setting-up the Price

One of the most challenging decisions that marketers make is decisions related to price setting. This may affect the profitability of the organisation and once set, prices cannot be easily changed.

Although the price may be planned by the accountant, the decision to pay the same is taken by the customer. Practically, pricing decisions, being financial aspect of the organisation, must be made on the basis of the findings regarding competition, target market, product content, distribution, and positioning. Prices can be set by following the below mentioned procedure:

3.4.5.1. Setting Pricing Objectives

Identifying the pricing objective is the foremost step towards pricing. Deciding target market is one of the pre-requisites of selecting pricing objectives. If the objectives are clear, it becomes easier to set the price. In case the firm is facing intense competition, having over capacity or dealing with varying consumer needs, survival becomes its main objective. By designing price, which balances variable as well as some portion of fixed costs attached with the production of goods and services, the organisation is able to remain in business. Survival is considered to be a short-term objective. The firm must find out ways to increase its value, otherwise the situation of extinction may arise.

Various firms price their products in order to maximise their current profits. They look for alternative prices and assess the demand and cost associated with it. Once this is done, they select the price that delivers maximum cash flow, current profit or rate of return on investment. It is assumed in this strategy that the firm is aware of its cost and demand functions, which are difficult to evaluate in reality. Increased market share is also a pricing objective for several organisations. As per these organisations, if the sales volume is high, the unit costs will become low resulting in higher long-term profits.

3.4.5.2. Determining Demand

Once the objectives are identified, the firm decides the demand. The level of demand is different for each price. Hence, it will impact the marketing objectives of the firm differently. Generally, demand is inversely proportional to price, i.e., demand decreases with the increase in price. At times, for prestige goods, the demand curve has an upward inclination.

For example, when a perfume company increases its prices, more of its goods get sold. Sometimes, higher prices depict better quality products for some consumers. Yet, if the prices are too high, demand for the product decreases.

Demand curve displays the relationship between alternate prices and the subsequent current demand. Demand for a particular product can be determined by observing following elements:

- 1) **Price Sensitivity:** Price sensitivity is impacted by the following nine factors:
 - i) **Unique Value Effect:** In case of products that are unique, the buyers become less price-sensitive.
 - ii) **Substitute-Awareness Effect:** If the buyers are not much aware of the alternatives, they become less price-sensitive.
 - iii) **Difficult-Comparison Effect:** When buyers are not able to compare the features of the substitutes easily, they become less price-sensitive.
 - iv) **Total Expenditure Effect:** If the expenditure, i.e., a share of their total income is low, buyers become less price-sensitive.
 - v) **End-Benefit Effect:** If the cost of the end product is higher than the expenditure, the buyers become less price-sensitive.
 - vi) **Shared-Cost Effect:** If some of the cost is tolerated by the other entity, buyers become less price-sensitive.
 - vii) **Sunk-Investment Effect:** If there are some previously bought assets that are used in combination with the product, the buyer becomes less price-sensitive.

viii) **Price-Quality Effect:** Buyers become less price-sensitive in case of prestigious, special or high quality products.

ix) **Inventory Effect:** If the buyers are not able to store the product, they become less price-sensitive.

2) **Estimating Demand Curves:** There are various methods that a company can use for measuring the demand curve:

- i) In the first method, past prices, quantities sold and other such factors are statistically analysed and their relationships are studied.
- ii) In the second method, price experiments are performed. For example, the prices of various products sold at a discount store are changed and the results are monitored.
- iii) In the third method, buyers are questioned about the number of units they plan to purchase at different proposed prices.

3) **Price Elasticity of Demand:** Price elasticity of demand or PED is the reaction in the form of change in quantity demanded with respect to change in price. The following formula is used to calculate it:

$$PED = \% \text{Change in Demand} / \% \text{Change in Price}$$

3.4.5.3. Estimating Costs

The price a company can set for its products is given a ceiling through demand. The floor is provided by cost. The company may intend to price its product so that it can balance its production, selling as well as distribution costs and earn a reasonable rate of return against its risks and efforts. Costs are divided into two types:

- 1) **Overhead or Fixed Costs:** This cost remains constant irrespective of the revenue earned from production and sales. For example, the amount of goods produced has no impact on the cost of land.
- 2) **Variable Costs:** This cost changes with the quantity of goods produced. For example, with the amount of goods produced the cost of raw material changes.

When fixed and variable costs at a particular level of production are added, it gives the total cost. On the other hand, per unit cost at a particular level of production gives the average cost. Gathered production experience reduces the average cost.

3.4.5.4. Analysing Competitor's Pricing

Next crucial step that needs to be taken while setting prices is the analysis of competitors' costs, offers and prices. In addition, the company should also consider the competitors' price responses to market changes, which lie within the array of prices decided on the basis of company costs and market demand. As the ceiling and floor to pricing are set by the demand and cost

respectively, competitor's price give the mid-point that must be analysed while setting the prices. Marketers collect price lists of competitors in the market to buying competitors' products and services in order to judge their pricing as well as product quality.

3.4.5.5. Selecting Pricing Method

The company needs to decide upon three elements called the 3 Cs while setting the final price:

- 1) **Cost-based Price:** This lays down the floor for pricing.
- 2) **Competitor-based Price:** This gives the orientation framework for pricing.
- 3) **Customer Demand-based Price:** This lays down the ceiling for pricing.

Various pricing methods have been discussed in this chapter under the heading **methods of pricing**.

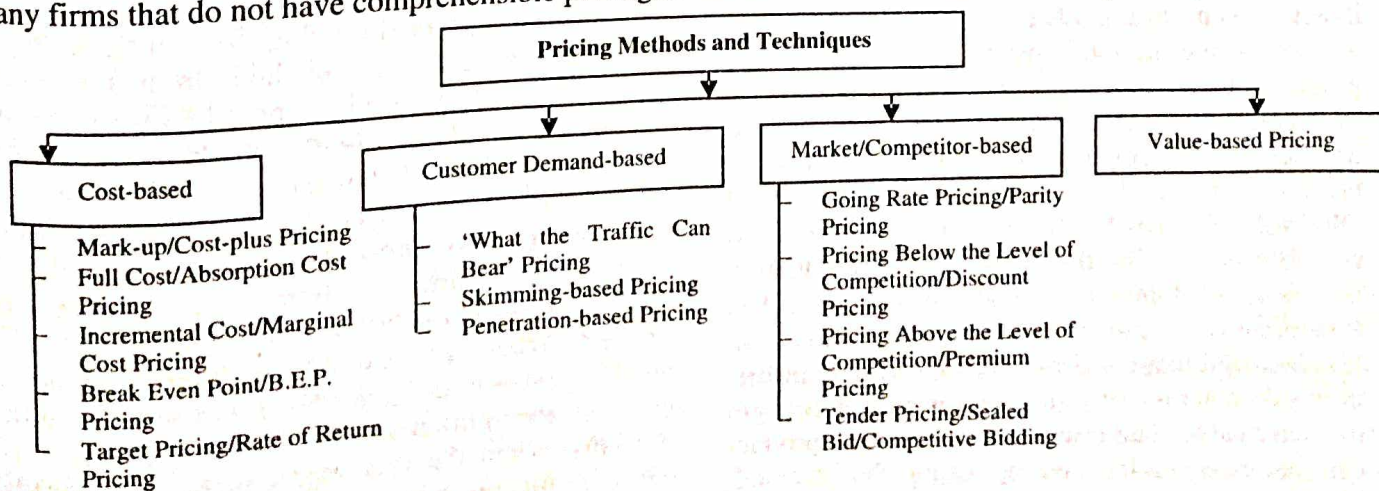
3.4.5.6. Selecting the Final Price

After selecting the suitable pricing method, it becomes easier for the organisation to finalise the price. Below mentioned are certain additional factors that the organisation needs to take into account while finalising its price:

- 1) **Psychological Pricing:** Price acts as quality indicator for certain customers. Generally, the perceptions regarding quality and price of products interact in consumer buying activity. Products like cars, which are priced high, are believed to be of high quality and *vice versa*. When customers have alternative details regarding quality, price loses its importance as quality indicator. In case of lack of this information, price becomes the most crucial quality indicator.
- 2) **Company's Pricing Policies:** The prices should fall in line with the pricing policies of the company.

3.4.6. Pricing Methods and Techniques

Cost consideration and consumer situation are the two fundamentals that impact price decisions. Unfortunately, there are many firms that do not have comprehensible pricing methods. Below mentioned are the general pricing methods:



Several companies have a separate department that takes care of pricing policies and develops or approves pricing decisions. Here, the main purpose is to make sure that the prices, which appear fair to the customers and are profitable to the organisation, are quoted by their sales people.

- 3) **Impact of Price on Other Parties:** The management needs to analyse how other parties are going to react to the final price. What are the responses of the dealers and distributors concerning it? Are the sales people ready to sell the product at that price? How will the competitors respond? Will the company's prices cause the suppliers raise their prices? Will the government interfere and stop the organisation from charging this price?
- 4) **Influence of Other Marketing Mix Elements:** The quality and advertising of the brand must be considered in comparison to competition. When the relationship between relative price, advertising and quality was studied, the following findings were revealed:
 - i) Premium prices were charged by brands providing average relative quality with the help of a high relative budget for advertising. For a product that was known to the consumers, they willingly paid higher prices as compared to the ones that were unknown.
 - ii) Highest prices were charged by brands providing high relative quality with the help of a high relative advertising budget. On the other hand, lowest prices were charged by brands, providing low quality in presence of low advertising budget.
 - iii) In the later stages of the product life cycle, the firm witnessed a positive relation between high advertising and high prices in case of leading brands.

3.4.6.1. Cost-based Pricing

The most important variable as well as the basis of pricing a particular product, is the production cost of that product. Costs may be of different kinds like total cost, variable cost, fixed cost, marginal cost, average cost, etc. These costs must be critically analysed in order to set a product's price. Methods for finding out the cost oriented price are as follows:

- 1) **Mark-up/Cost-plus Pricing:** This method requires the marketer to approximately calculate the total production or manufacturing cost of the product and after that adding a mark-up or the margin (that the firm intends to earn) to it. This is the most basic pricing method which is used to price a number of projects and services. The below mentioned formula can be used to calculate the mark-up price:

$$\text{Mark up price} = \frac{C}{(1 - r)}$$

where,

C = Unit cost (Fixed cost + Variable cost)

r = Expected sales returns (expressed as per cent)

- 2) **Full Cost/Absorption Cost Pricing:** In absorption/full cost pricing, the unit cost is finalised with reference to regular production and sales level. With the help of standard costing approach, variable as well as fixed costs concerning the production, sales, and administration of the product are finalised. It is called full cost pricing as it aims to recover total costs incurred on the product from its sales.
- 3) **Incremental Cost/Marginal Cost Pricing:** In this method of pricing, the company strives to recover its marginal cost so as to aid its overheads. This pricing method gives best results in the market, where large firms operate or where there is extreme competition and the firm works with the sole aim of establishing itself in the market. The firm adopts this pricing method when it:
 - i) Encounters intense competition,
 - ii) Focuses on a new market, and
 - iii) Possesses unexploited capacity.
- 4) **Break Even Point/B.E.P. Pricing:** The sales volume, where the total cost becomes equal to the product's total sales revenue is known as 'break-even point'. In other words, the sales volume of the product, which neither witnesses profit nor loss, is break-even point. Hence, this method is also called 'No Profit No Loss Method of Pricing'. In order to calculate price using this method, total production cost is divided into fixed and variable cost. The final price is same as the product's production cost. It is believed that the firm will not earn any profits in the short-term, but in the long-term it will begin earning profits. The price of a competitive product can be easily calculated by using this method.

B.E.P. can be calculated by the formula mentioned below:

$$\text{B.E.P. (In Units)} = \frac{\text{Fixed Costs}}{\text{Selling Price per unit} - \text{Variable Costs per unit}}$$

$$\text{B.E.P. (In ₹)} = \frac{\text{Fixed Costs} \times \text{Total Sales}}{\text{Total Sales} - \text{Total Variable Costs}}$$

- 5) **Target Pricing/Rate of Return Pricing:** In this pricing method, the company needs to calculate the desired rate of return on the capital it has invested in producing the product. This rate of return helps in calculating the desired quantity of profit. This 'quantity of profit' and 'production cost' are summed up to find the 'per unit price' of the product. A company can employ this pricing method, when it needs to get a specific return on the capital it has invested. This method can be used only in markets with no competition at all.

3.4.6.2. Customer Demand-based Pricing

The fundamental aspect of the demand oriented costing is that the cost involved does not have an impact on the profits but on the demand. This method, contrary to cost-based pricing, begins by finding out the price that the consumer market intends to pay for the product. Then, a backward estimation of the level of cost and profit (that the organisation can afford due to that price) is undertaken. Following methods are used to determine the customer demand-based pricing:

- 1) **'What the Traffic Can Bear' Pricing:** Using this method, the seller charges the customer with the maximum possible price that they will pay willingly under the present situation. This method is far from being sophisticated and is followed by retail traders and few manufacturers. In the short-run, it provides the company with large profits but is an unsafe method in the long-run. Error in judgments can easily take place as it is based on trial and error. But in markets with monopoly/oligopoly and price-inelastic demand, it can conveniently be applied.
- 2) **Skimming-based Pricing:** Skimming pricing is the commonest pricing method. In this method, the companies by selling at premium prices fulfil their desire of skimming the market. The results are obtained in the below mentioned situations:
 - i) When high price is supposed to be a testimony of high product quality, especially in an environment, where target market relates product quality with its price.
 - ii) When a customer willingly purchases the product at higher price, just in order to become the opinion leader.
 - iii) When the customer's status is believed to be increased by product.

- iv) When the entry as well as exit barriers are so low that there is almost no competition in the industry or the industry fears a threat from potential competition.
- v) When a visible technological advancement is displayed by the product, which makes the product a 'high technology product'.

When the firm adopts skimming pricing technique, it aims to attain its break-even point at an early stage and takes lesser time to maximise its profits (or find a niche to earn profits).

- 3) **Penetration-based Pricing:** Contrary to skimming pricing, penetration-based pricing focuses on keeping the prices low as compared to current competitors. Market penetration or gaining initial market share in an intensely competitive market, is the main objective of this pricing method. Below mentioned are the situations in which this method gives results:
 - i) When the market is large in size and is still growing,
 - ii) When the brands are bought by the customers not because of some definite inclinations but because of habit, i.e., customer loyalty is low,
 - iii) When a stiff competition dominates the market,
 - iv) When an entry strategy is employed by the firm,
 - v) When the company has weak price-quality coordination.

3.4.6.3. Competitor/Market-based Pricing

Under this method, prices are determined by observing the competitors' prices in a particular market. Generally, small organisations follow such pricing method in presence of a market leader. **For example**, a small tyre manufacturer may follow the prices of Apollo Tyres. Also in case of entering a new market, a low-cost supplier may follow the market/competitor-based pricing. A large number of companies carefully analyse the price structure of the competitors, before setting their product's price. Firms formulate premeditated policies and choose a competitive market for selling their products. When a company prices its products using this method, it has four pricing options:

- 1) **Going Rate Pricing/Parity Pricing:** In this method, the competitor's product is taken as the benchmark to set the price of the product. A firm follows this approach either when it is new in market or when an already established firm launches a new product in the existing market. This type of pricing is suitable for the markets with severe competition.
- 2) **Pricing Below the Level of Competition/ Discount Pricing:** When a company sets the price of its product lower than the level of competition, i.e., below the price that the competitor is charging for a similar product, it is called 'pricing below the level of competition' or 'discount pricing'. This method is effective in markets, where customers equate to price. It is implemented by firms that are new in the market.

- 3) **Pricing Above the Level of Competition/ Premium Pricing:** When a company sets the price of its product upper than the level of competition, i.e., above the price that the competitor is charging for a similar product, it is called 'pricing above the level of competition' or 'premium pricing'. This is done to depict a better quality product by the company. This pricing policy can be implemented only by firms that have a good reputation in the market (as their image is that of a quality producer in the customer's mind). This makes them the market leader.
- 4) **Tender Pricing/Sealed Bid/Competitive Bidding:** The sealed bid is another competitive pricing method followed by firms. There are numerous projects, government purchases and industrial marketing activities where suppliers are called to submit their quotations to get the tender. The prices that are quoted, show the cost incurred by the company and what it understands about competition. A firm that offers a price at the cost level may become the lowest bidder and bag the contract, but would not earn any profit from the deal. Thus, it is crucial for the firms to take into account expected profits at various price levels and finally quote the price that is most profitable.

3.4.6.4. Value-based Pricing

Understanding the value offered to customers is essential for accurately pricing the product or service of an organisation. In this method, cost is not the determining factor for pricing. Customer's perception of the value associated with the product or service is the key to pricing decision. Here, first the product or service is designed, thereafter the marketing strategy, and finally the price is set by analysing the other marketing mix elements. It will be clearly seen in the analysis that the below mentioned conditions can be obtained with the cost-value-price chain:

- 1) **Value>Price>Costs:** In the first condition, price of the product is kept lesser than the value offered, to attract the potential customers. However, significant profit is generated by maintaining the price above the cost of production.
- 2) **Price>Value>Costs:** In this condition, value offered to customers through product is more than its cost of production. In order to maintain a significant level of profit companies set price more than value offered.
- 3) **Price>Costs>Value:** Sometimes, cost of production is more than the value offered through product. Profitability is maintained in this condition by setting the price above the production cost.
- 4) **Price=Value>Costs:** A condition may also occur, where production cost is lower than value offered. A reasonable amount of profit is generated by setting the price equal to the value offered.

3.4.7. Strategies of Pricing

Firms generally prefer to prepare a specific pricing structure, indicating various variables over a single price. Therefore, after deciding the method of pricing, the requisite price of the specific goods or services is finalised with the help of various pricing policies or customised pricing approaches. These include differential pricing, geographical pricing, promotional pricing, product-mix pricing, psychological pricing, new-product pricing, and price allowances and discounts. The explanation of these pricing strategies is given below:

i) **New Product Pricing:** Pricing a new product is an especially challenging decision problem. The newer the concept of the product, the more difficult the pricing decision is. Pricing a new product is harder than pricing a mature product because of the magnitude of the uncertainties involved. New products entail many uncertainties. Pricing new products is an extremely difficult process unless substantial marketing research using surveys and/or test market data has helped identify consumer expectations about prices. When test markets are used, market data on quantities demanded at various prices can be generated. This method provides an initial estimate of the demand curve that can be used to equate marginal cost and marginal revenue. Two common approaches to new product pricing, which reflect different marketing objectives and market conditions, are penetration pricing and skimming pricing.

i) **Price Skimming:** Price skimming is a pricing strategy which companies adopt when they launch a new product, in this strategy while launching a product company sets high price for a product initially and then reduce the price as time passes by so as to recover cost of a product quickly. An example of price skimming would be mobiles which have some added features are sold at higher prices and then prices began to decline as time passes by, another example of price skimming would be 3D televisions which are right now being sold.

ii) **Penetration Pricing:** Penetration pricing is the practice of initially setting a low price for one's goods or services, with the intent of increasing market share. The price may be set so low that the seller cannot earn a profit. However, the seller is not irrational. Penetration pricing is the pricing technique of setting a relatively low initial entry price, usually lower than the intended established price, to attract new customers. The strategy aims to encourage customers to switch to the new product because of the lower price. Penetration pricing is often used to support the launch of a new product, and works best when a product enters a market with

relatively little product differentiation and where demand is price elastic – so a lower price than rival products is a competitive weapon.

2) **Product-Mix Pricing Strategies:** Price-setting logic must be modified when; the product is part of a product mix. In this case, the firm searches for a set of prices that maximises profits on the total mix. Pricing is difficult because the various products have demand and cost interrelationships and are subject to different degrees of competition. Eight situations involving product-mix pricing:

i) **Product Line Pricing:** Companies normally develop product lines rather than single products and introduce price steps. In many lines of trade, sellers use well-established price points for the products in their line. A men's clothing store might carry men's suits at three price levels ₹800, ₹1500, and ₹4500. Customers will associate low-, average-, and high-quality suits with the three price points. The seller's task is to establish perceived-quality differences that justify the price differences. The goal of product line pricing is to maximise profits.

ii) **Optional-Product Pricing:** Many companies offer optional products, features, and services alongwith their main product. The automobile buyer can order electric window controls, defoggers, light dimmers, and an extended warranty. Pricing is a sticky problem; automobiles companies must decide which items to include in the price and which to offer as options.

iii) **Captive-Product Pricing:** Some products require the use of ancillary, or captive, products. Manufacturers of razors and cameras often price them low and set high mark-ups on razor blades and film, respectively. A cellular service operator may give a cellular phone free if the person commits to buying two years of phone service.

iv) **Two-Part Pricing:** Service firms often engage in two-part pricing, consisting of a fixed fee plus a variable usage fee. Telephone users pay a minimum monthly fee plus charges for calls beyond the minimum number. Amusement parks charge an admission fee plus fees for rides over a certain minimum number. The service firm faces a problem similar to captive-product pricing-namely, how much to charge for the basic service and how much for the variable usage. The fixed fee should be low enough to induce purchase of the service; the profit can then be made on the usage fees.

v) **By-Product Pricing:** The production of certain goods such as meats, petroleum products, and other chemicals often results in by-products. If the by-products have value to a customer group, they should be priced on their value.

Any income earned on the by-products will make it easier for the company to charge a lower price on its main product if competition forces it to do so.

- vi) **Product-Bundling Pricing:** Sellers often bundle products and features. Pure bundling occurs when a firm only offers its products as a bundle. In mixed bundling, the seller offers goods both individually and in bundles. When offering a mixed bundle, the seller normally charges less for the bundle than if the items were purchased separately. An auto manufacturer might offer an option package at less than the cost of buying all the options separately.
 - vii) **Premium Pricing:** This strategy is used by a firm that has heterogeneity of demand for substitute products with joint economies of scale. Consider the example of a colour television set. There are different models available with different features, like the one with a remote control and another without it. Both are substitutable and satisfy the customer needs.
 - viii) **Image Pricing:** This strategy is used when consumers infer quality from the prices of substitute models or competing products. The firm varies its prices over different brands of the same product line. This strategy is commonly used in textiles, cosmetics, toilet soaps and perfumes.
- 3) **Price Discounts and Rebates:** Discounts are incentives offered to customers, usually as a means of attracting repeat business from those customers. While the implementation of some type of discount on price will vary from one situation to another, the basic idea is to provide customers with a sense of receiving some type of additional value by not having to pay the standard or published price for goods and services. While many think of a price discount as a tool used mainly by retailers, the fact is that this type of strategy is often utilised to attract business clients and entice them to make long-term commitments to a specific vendor. One of the more common examples of a price discount to a business or other type of organisation is known as the volume price discount. **Rebating** is highly attractive to consumers, offering a partial cash reimbursement for their purchases that is tax-free, since the Internal Revenue Service views rebates as a reduction in the price paid for a product, rather than as income. For manufacturers, rebating provides numerous advantages – it induces prospective customers to try their products; it boosts company sales and visibility; and it attracts interest from retailers, who often help promote the offer and expand the shelf space allotted to the manufacturer's goods accordingly. Rebate

promotions can thus help a company increase its leverage with retailers and develop brand loyalty and repeat business among consumers over the long run – not just a one-time incentive to buy. This is most readily seen in seasonal industries such as that for small batteries. The following are the most common tactics:

- i) **Quantity Discounts:** When buyers get a lower price for buying in multiple units or above a specified dollar amount, they are receiving a quantity discount. A cumulative quantity discount is a deduction from list price that applies to the buyer's total purchases made during a specific period; it is intended to encourage customer loyalty. In contrast, a non-cumulative quantity discount is a deduction from list price that applies to a single order rather than to the total volume of orders placed during a certain period. It is intended to encourage orders in large quantities.
- ii) **Cash Discounts:** It is a price reduction offered to a consumer, an industrial user, or a marketing intermediary in return for prompt payment of a bill. Prompt payment saves the seller carrying charges and billing expenses and allows the seller to avoid bad debt.
- iii) **Functional Discounts:** When distribution channel intermediaries, such as wholesalers, perform a service or function for the manufacturer, they must be compensated. This compensation, typically a percentage discount from the base price, is called a functional discount (or trade discount). Functional discounts vary greatly from channel to channel, depending on the tasks performed by the intermediary.
- iv) **Seasonal Discounts:** It is a price reduction for buying merchandise out of season. It shifts the storage function to the purchaser. Seasonal discounts also enable manufacturers to maintain a steady production schedule year-round.
- v) **Promotional Allowance:** Promotional allowance (also known as a trade allowance) is a payment to a dealer for promoting the manufacturer's products. It is both a pricing tool and a promotional device. As a pricing tool, a promotional allowance is like a functional discount. **For example**, if a retailer runs an ad for a manufacturer's product, the manufacturer may pay half the cost.
- vi) **Rebates:** A **rebate** is an amount paid by way of reduction, return, or refund on what has already been paid or contributed. It is a type of sales promotion where marketer uses it primarily as incentives or supplements to product sales. Rebates, widely known as refunds, are a popular tool used by businesses to promote their

products and services. It is a cash refund given for the purchase of a product during a specific period. The advantage of a rebate over a simple price reduction for stimulating demand is that a rebate is a temporary inducement that can be taken away without altering the basic price structure. A manufacturer that uses a simple price reduction for a short time may meet resistance when trying to restore the price to its original higher level.

- vii) **Zero-Percent Financing:** During the mid and late 2000s, new-car sales receded. To get people back into the automobile showrooms, manufacturers offered zero-percent financing which enabled purchasers to borrow money to pay for new cars with no interest charge. The tactic created a huge increase in sales but not without cost to the manufacturers. A five-year interest-free car loan represented a cost of over \$3,000 on a typical vehicle sold during a zero-percent promotion.
- 4) **Psychological Pricing:** Price says something about the product. Psychological pricing is a method of setting prices intended to have special appeal to consumers. When consumers can judge the quality of a product by examining it or by calling on past experience with it, they use price less to judge quality. When consumers cannot judge quality because they lack the information or skill, price becomes an important quality signal. Another aspect of psychological pricing is reference pricing – prices that buyers carry in their minds and refer to when looking at a given product. The reference price might be formed by noting current prices, remembering past prices, or assessing the buying situation. Sellers can influence or use these consumers' reference prices when setting price. Prestige pricing, reference pricing, odd-even pricing, and traditional pricing are all different types of psychological pricing.
 - i) **Odd/Even Pricing:** The practice of using prices that end in either an odd or an even number.
 - ii) **Reference Pricing:** A concept of what the price of a product should be based on the consumers' frame of reference.
 - iii) **Prestige Pricing:** The practice of selling products at high prices to build a reputation for quality.
- 5) **Promotional Pricing:** Promotional pricing takes several forms. Supermarkets and department stores will price a few products as loss leaders to attract customers to the store in the hope that they will buy other items at normal mark-ups. Companies can use several pricing techniques to stimulate early purchase:
 - i) **Complementary Pricing:** This strategy is used by a firm that has customers with high transaction costs for one or more of its products. Transaction costs are all those costs that a customer has to incur to buy the product, like the registration fees that a flat buyer has to pay in order to be a legal owner or the processing fees that the bank may charge to give a credit card to the customer.
 - ii) **Loss Leader Strategy:** This is another example of complementary pricing strategy. This strategy involves dropping the price on a well-known brand to generate demand or traffic at the retail outlet. Supermarkets and department stores often drop the price on well-known brands to stimulate additional store traffic.
 - iii) **Special-event Pricing:** Sellers will establish special prices in certain seasons to draw in more customers.
 - iv) **Cash Rebates:** Auto companies and other consumer-goods companies offer cash rebates to encourage purchase of the manufacturers' products within a specified time period. Rebates can help clear inventories without cutting the stated list price.
 - v) **Low-interest Financing:** Instead of cutting its price, the company can offer customers low-interest financing. Automakers have even announced no-interest financing to attract customers.
 - vi) **Longer Payment Terms:** Sellers, especially mortgage banks and auto companies, stretch loans over longer periods and thus lower the monthly payments. Consumers often worry less about the cost (i.e., the interest rate) of a loan and more about whether they can afford the monthly payment.
 - vii) **Warranties and Service Contracts:** Companies can promote sales by adding a free or low-cost warranty or service contract.
 - viii) **Psychological Discounting:** This strategy involves setting an artificially high price and then offering the product at substantial savings. Promotional-pricing strategies are often a zero-sum game. If they work, competitors copy them and they lose their effectiveness. If they do not work, they waste money that could have been put into other marketing tools, such as building up product quality and service or strengthening product image through advertising.
- 6) **Geographical Pricing Strategy:** This strategy seeks to exploit economies of scale by pricing the product below the competitor's in one market and adopting a penetration strategy in the other. The former is termed as **second market discounting**. This second market discounting is a part of the differential pricing strategy where the firm either dumps or sells below its cost in

the market to utilise its existing surplus capacity. So, in geographic pricing strategy, a firm may charge a premium in one market, penetration price in another market and a discounted price in the third. Another issue is how to get paid. This issue is critical when buyers lack sufficient hard currency to pay for their purchases. Many buyers want to offer other items in payment, this practice is known as **counter trade**, it has following forms:

- i) **Barter:** The direct exchange of goods, with no money and no third party involved.
 - ii) **Compensation Deal:** The seller receives some percentage of the payment in cash and the rest in products.
 - iii) **Buyback Arrangement:** The seller sells a plant, equipment, or technology to another country and agrees to accept as partial payment products manufactured with the supplied equipment.
 - iv) **Offset:** The seller receives full payment in cash but agrees to spend a substantial amount of the money in that country within a stated time period.
- 7) **Discriminatory Pricing Strategy:** This strategy involves a firm differentiating its price across different market segments. The assumption in this strategy is that different market segments do not communicate or have different search costs and value perceptions of the product. In other words, heterogeneity in the market motivates a firm to adopt this strategy. Companies often adjust their basic price to accommodate differences in customers, products, locations, and so on. Price discrimination occurs when a company sells a product or service at two or more prices that do not reflect a proportional difference in costs. In **first degree** price discrimination, the seller charges a separate price to each customer depending on the intensity of his or her demand. In **second-degree** price discrimination, the seller charges less to buyers who buy a larger volume. In **third-degree** price discrimination, the seller charges different amounts to different classes of buyers, as in the following cases:
- i) **Customer-Segment Pricing:** Different customer groups are charged different prices for the same product or service. **For example,** museums often charge a lower admission fee to students and senior citizens.
 - ii) **Product-Form Pricing:** Different versions of the product are priced differently but not proportionately to their respective costs.
 - iii) **Image Pricing:** Some companies price the same product with two different levels based on image differences. A perfume manufacturer can put the perfume in one bottle, give it a name and image, and price it at ₹50. It can put the same perfume in another bottle with a different name and image and price it at ₹200.

iv) **Channel Pricing:** Coca-Cola carries a different price depending on whether it is purchased in a fine restaurant, a fast-food restaurant, or a vending machine.

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

vi) **Time Pricing:** Prices are varied by season, day, or hour. Public utilities vary energy rates to commercial users by time of day and weekend versus weekday. Restaurants charge less to "early bird" customers. Hotels charge less on weekends. Hotels and airlines use yield pricing, by which they offer lower rates on unsold inventory just before it expires.

3.5. EXERCISE

3.5.1. Very Short Answer Type Questions

- 1) Briefly explain levels of product.
- 2) What are product mix decisions?
- 3) List the types of packaging.
- 4) What are the elements of a good logo?

3.5.2. Short Answer Type Questions

- 1) State the primary objective of product management.
- 2) Explain product hierarchy.
- 3) Why new products fail?
- 4) Explain packaging as a marketing tool.
- 5) Discuss the role of labeling in packaging.
- 6) What are the sources of brand equity?
- 7) Discuss the effects of brand extension.
- 8) State the significance of pricing.
- 9) Briefly discuss the strategies of pricing.

3.5.3. Long Answer Type Questions

- 1) What do you understand by product management? Discuss the importance of product management.
- 2) Discuss in detail the classification of product.
- 3) Define product mix. Discuss the strategies of product mix.
- 4) What do you understand by product life cycle? Explain the various stages of product life cycle.
- 5) What do you understand by new product development? Elaborate the process of new product development.
- 6) Explain the concept of branding. Discuss the strategies of branding.
- 7) Define brand equity. Explain Keller's model of brand equity.
- 8) What do you understand by selecting a logo? Discuss the benefits of logos and symbols.
- 9) What is brand extension? State the approaches of brand extension.
- 10) Define pricing. Elaborate the internal and external factors that influence pricing.
- 11) What are the objectives of pricing? Elaborate the procedure of pricing.
- 12) Explain cost based pricing and customer based pricing.
- 13) Describe competitor based pricing and value based pricing.